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ABSTRACT

Contents of these hearings include: a statement prepared for the Senate Select Committee on Equal Educational Opportunity, submitted by the National Committee for Support of the Public Schools; "Future Direction for School Financing, a Response to Demands for Fiscal Equity in American Education," a monograph prepared by the National Educational Finance Project, Florida, 1971, and financed by funds provided under the Elementary and Secondary Act of 1965, Title V, and sponsoring states; Report of the Commissioner's Ad Hoc Group on School Finance, Department of Health, Education, and Welfare, 1971; State Aid to Local Government, a report from the Advisory Commission on Intergovernmental Relations, Washington, D.C. 1969; Analysis of School Finances, New York State School Districts, 1969-70, a report from the State Education Department, Bureau of Educational Finance, 1971; proposed ligislation to ease local property tax burden for local educational costs, from "The Congressional Record," 1971; and, a statement by Mrs. Louis A. Malis, member Chicago Board of Education, November 1971. (JM)

EQUAL EDUCATIONAL OPPORTUNITY—1971

ED 058356

HEARINGS
BEFORE THE
SELECT COMMITTEE ON
EQUAL EDUCATIONAL OPPORTUNITY
OF THE
UNITED STATES SENATE
NINETY-SECOND CONGRESS
FIRST SESSION
ON
EQUAL EDUCATIONAL OPPORTUNITY

PART 16D-3—INEQUALITY IN SCHOOL FINANCE: General Appendixes

WASHINGTON, D.C.

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EDUCATION & WELFARE
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MISCELLANEOUS ITEMS TO THE HEARINGS' SUBJECT

NATIONAL COMMITTEE FOR SUPPORT OF THE PUBLIC SCHOOLS,
Washington, D.C., November 1, 1971.

Senator WALTER F. MONDALE,
U.S. Senate, Select Committee on Equal Educational Opportunity, Washington, D.C.

DEAR SENATOR MONDALE: It is a pleasure to submit the enclosed statement regarding necessary reforms in the present system of financing public education to your committee. The statement has been reviewed by the Executive Committee of NCSPS and they raised an additional question which we are not yet able to fully answer: What should be the dollar contribution of the federal government in financing public education? We hope to address this and other questions at a forthcoming NCSPS Conference about school finance.

We appreciate an opportunity to express our views for the record of the Select Committee, and trust that they will complement the fine statements you have received already.

Cordially yours,

GERALD E. SROUFE,
Executive Director.

Enclosure.

A STATEMENT PREPARED FOR THE U.S. SENATE SELECT COMMITTEE ON EQUAL EDUCATIONAL OPPORTUNITY, BY THE NATIONAL COMMITTEE FOR SUPPORT OF THE PUBLIC SCHOOLS

The National Committee for Support of the Public Schools is a national citizen's organization concerned exclusively with public education. Since its founding in 1962, NCSPS has been committed to obtaining adequate and equitable financial support for public education. The National Committee sponsored several national conferences, and numerous publications, which have noted the manner in which state fiscal schemes defeat the objective of equality of opportunity.

The National Committee joined with the Urban Coalition, Stephen D. Sugarman, and John E. Coons in submitting to the Supreme Court of California a friend-of-the-court brief in support of the plaintiff's cause in *Serrano* v. *Priest*. The National Committee entered this case because it offered the promise of alleviating inequities within the existing system in California and other states. The California Court, in ruling that the present state system of school finance is unconstitutional, handed down a landmark decision in *Serrano*. The ruling offers a unique opportunity to mobilize public understanding necessary to strike down fiscal barriers which impede achievement of both quality education and equality of educational opportunity.

THE PRESENT STATE SYSTEMS OF EDUCATION FINANCE

Educational support programs in almost every state are wealth-based systems which imply by public policy that the rich deserve better education than the poor. These state systems may be characterized as follows:

1. *State systems of education finance rely heavily on local taxation of real property for school support.* On a nationwide basis local government currently provide approximately 52 percent of public school revenue. The nature of the

property tax and the questionable practices associated with it which cause gross inequities in tax burden are legion:

Nonuniform assessment of like properties within the state and within local jurisdictions is the rule rather than the exception.

Underassessment and partial or total exemptions are routinely granted to favored properties or favored classes of property owners thereby increasing the burden of those who remain on the tax rolls.

It discriminates against those who concentrate wealth in property as opposed to those who invest in other securities and is a severe burden on those who own homes but have little current income.

Local assessors, typically elected, are often untrained and lack professional staffs, modern equipment, or adequate budgets.

2. *State system of education finance establish school districts which vary greatly in the amount of available local wealth.* For example:*

In California assessed value per elementary pupil was: West Covina, $7,688; Beverly Hills, $87,066.

In Michigan equalized assessed valuation per pupil was: Forsyth, $1,319; River Rouge, $53,156.

In Maryland assessed valuation + taxable net income per pupil was: Calvert, $13,357; Montgomery, $30,349.

3. *State systems of education finance distribute state funds through foundation programs which fail to correct the wealth disparities among local districts.* While these programs vary widely in specifics from state-to-state they frequently suffer from three major flaws, and a host of minor ones:

Foundation amounts—the maximum amount the state assures each district—are inadequate. For instance, California's maximum amount is $355 per elementary pupil, Maryland's is $370.

Flat or minimum grants which award money on the basis of number of pupils to all districts, wealthy or poor. When they are awarded as part of the maximum foundation amount, as in California, or are substituted for districts not qualifying for minimum amounts under an equalization program, as in Maryland, they subsidize the wealthy and attenuate the disparities.

Districts must raise money locally to support education programs superior to those provided for in the foundation amount. This gives rise to disparities in tax effort and in expenditures. Even though poorer districts make the same or greater tax effort on behalf of their schools, they are able to purchase much less education than the rich. For example:

	Tax rate	Expenditure
California:		
West Covina	$5.24	$621.26
Beverly Hills	2.38	1,231.72
Maryland:		
Calvery County	2.26	583.91
Montgomery County	2.28	876.40

THE SERRANO DECISION

The Supreme Court of California determined that the California public school financing system violates the equal protection clause of the Fourteenth Amendment and "invidiously discriminates against the poor because it makes the quality of a child's education a function of the wealth of his parents and neighbors." It ruled that:

1. The system is wealth discriminatory.

2. Education is a "fundamental interest" which cannot be conditioned on wealth.

3. No compelling state interest is served by the current financing scheme. Without deciding whether or not there are "compelling state interests," the Court determined that the present system is unnecessary to preserving local administrative control. And, from promoting local fiscal choice, the present system deprives the less wealthy districts of almost all fiscal options.

---

*California and Maryland figures are 1968–69, Michigan is 1965–66.

The *Serrano* decision clearly points out the irrationality and irrelevance of the state education support systems. The National Committee submits that this decision demands a positive response from educational policy makers in the states and at the federal level. A response to problems of equality of opportunity is long overdue and should be forthcoming now.

THE STATE RESPONSE

Basically, the states must assume responsibility for funding education in a manner which does not allow the wealth of a district to be a determining factor in the level of educational expenditure in that district. This can be accomplished through full state funding or through some form of percentage equalizing. Under percentage equalization, states allocate funds to local districts on a graduated percentage scale based on either local wealth per pupil or, as formulated under "power equalizing," on local tax effort.

1. *Full State Funding.*—There is growing interest in the concept of full state funding. Among the early supporters of such a move were the Advisory Commission on Intergovernmental Relations, James Conant, and Governor Milliken of Michigan. More recently Arthur Wise, who as early as 1965 questioned the constitutionality of current finance systems, has recommended full state funding in Maryland. The plan appears in a report prepared for the Citizens Commission on Maryland Government.[1] His approach is to move to an equalized per pupil expenditure (and in the case of Maryland he would equalize at the level of the highest-spending school district in 1971–72) and to allow 5 percent variation in either direction from that amount in any *school* for differences in economies of scale and in any *school district* for regional price-level differences. Federal aid such as Title I of ESEA would be allocated in addition to the equalized level of expenditures, thereby recognizing the special needs of educationally deprived children; whereas impact aid would be allocated as part of the equalized level. He would also move to a uniform statewide tax on property or a mandated uniform locally-imposed tax and recommends that additional revenues be generated from other sources, preferably the income tax.

Other approaches to determining the level of expenditure are available. In addition to differences in wage and salary levels in various regions, a state could take into consideration differences in the special requirements of different types of students. Dr. Charles Benson, in testimony before this Select Committee, suggested that such an approach would ease if the state established centers to supply special services such as vocational, remedial, health, transportation, programs for the gifted and handicapped and thereby provide "aid in kind" rather than money.

2. *Power equalizing.* Under power equalizing as formulated by Coons, Clune, and Sugarman,[2] a district would be permitted to spend a per pupil amount fixed by law based on the tax rate it chooses to levy, irrespective of the actual amount of local collections. The legislature might develop a scale which specified the local tax rate and a level of permissible per pupil expenditure. For instance, a minimum of 10 mills might set the expenditure at $500 and a maximum of 30 mill might set the expenditure at $1,500. The state would subsidize those poor districts that could not collect the expenditure allowed commensurate with its tax effort. Conversely, statewide redistribution of excess local collections from rich districts might be required.

One alternative to statewide redistribution of excess local collections would be to draw school boundaries in such a manner that differences in local wealth were reduced. This solution might prove to be more desirable in order to avoid excess collections which often are deemed politically unacceptable. Such redistricting would probably be feasible only if accompanied by statewide taxation of the business and industrial property which presently account for much of the extreme variations in district wealth.

Power equalizing would guarantee that the same tax effort would result in the same per pupil expenditure. To this extent, a student's educational opportunity would still be tied to where he lives and the willingness of his parents and neighbors to tax themselves.

---

[1] Arthur E. Wise. *A Responsible Plan for Public School Finance in Maryland.* Citizens Commission on Maryland Government: Baltimore, 1971.

[2] Coons, Clune, and Sugarman, *Private Wealth and Public Education.* Belknap: Cambridge, 1970.

A combination of these two approaches would also be possible. The state would provide an amount deemed adequate to permit a realistic expenditure level either at the level of one of the higher spending districts, or as determined by varying pupil characteristics, or other education criteria. Local add-ons of a specified number of dollars for every tax mill levied, say $25 for each mill, would be permitted. These add-ons would be subject to the same provisos of state subsidization and redistribution as outlined under power equalizing.

Other state responses may be suggested. Two that have been mentioned seem inappropriate for action now: 1) redistricting to achieve equal wealth and, 2) vouchers. While it is possible, theoretically, to establish districts without extreme variations in wealth—non-residential property taxation at the state level would probably be essential; to achieve absolute equal wealth among the district would prove to be disruptive. School districting should be relevant to education purposes, i.e., to achieve optimum management, education diversity, community participation, and economies of size, as well as to concerns for equalizing the tax base.

General voucher schemes appear to have serious flaws, including potential of encouraging racial isolation, diminishing quality control and accountability, or providing direct support for parochial schools. Experimentation is needed before a general voucher scheme can be adopted as a means of providing equality of education opportunity.

THE FEDERAL RESPONSE

The allocation of federal funds should be accomplished in a manner designed to encourage and assist the states in reform efforts. Impact aid which frequently attenuates disparities either should be abolished, and the monies distributed through other titles, or should be adjusted in accordance with district wealth to avoid subsidizing the rich. Title I funds must be more carefully guarded against misappropriation and/or use as replacement for ordinary state and local spending. The "comparability" requirements should be legislatively mandated and aggressively enforced since there is evidence that intra-district disparities are as prevalent as the inter-district disparities illustrated in Serrano.

Certainly, any new federal funds such as revenue sharing or general aid for education must have incentive and penalty provisions to induce the states to abandon wealth-based systems. Further, since grave disparities in fiscal capabilities exist among the states federal aid should be designed to equalize the capacity of providing a basic education among the states.

WHAT ADDITIONAL RESPONSE IS REQUIRED?

Contrary to what many commentators have reported, *Serrano* did not address the question of property taxation. Hence improved revenue collection and disbursement systems can continue to be based on faulty or inadequate tax instruments. Since the states have been willing partners, and often initiators, in allowing gross inequities to arise, statewide taxation of all or part of real property will not necessarily bring needed reform. NCSPS believes the states should make more extensive use of other sources of revenue, particularly progressive individual and corporate income taxes, and that the federal government should encourage the states to utilize these sources. One means of doing this would be to structure appropriate tax credits against the federal tax-liability.

Along with greater utilization of varied revenue sources and/or some form of statewide property taxation, the states require fiscal assistance in assuring levels of school expenditure adequate to provide quality education. The Advisory Commission on Intergovernmental Relations, in conjunction with recommending full state funding for education, recommended federal assumption of welfare costs.[3] Dr. Charles Benson has pointed out that services pertaining to children's nutrition and health are vital to achieving education purposes. Funding of these complimentary services could suffer in many states once they assume increased fiscal responsibility for education, and thereby create more education problems. These services, which also relate to welfare, could be supported at the federal level.

Finally, it is necessary that the federal government reorder its spending priorities and assume a greater share of funding the nation's schools.

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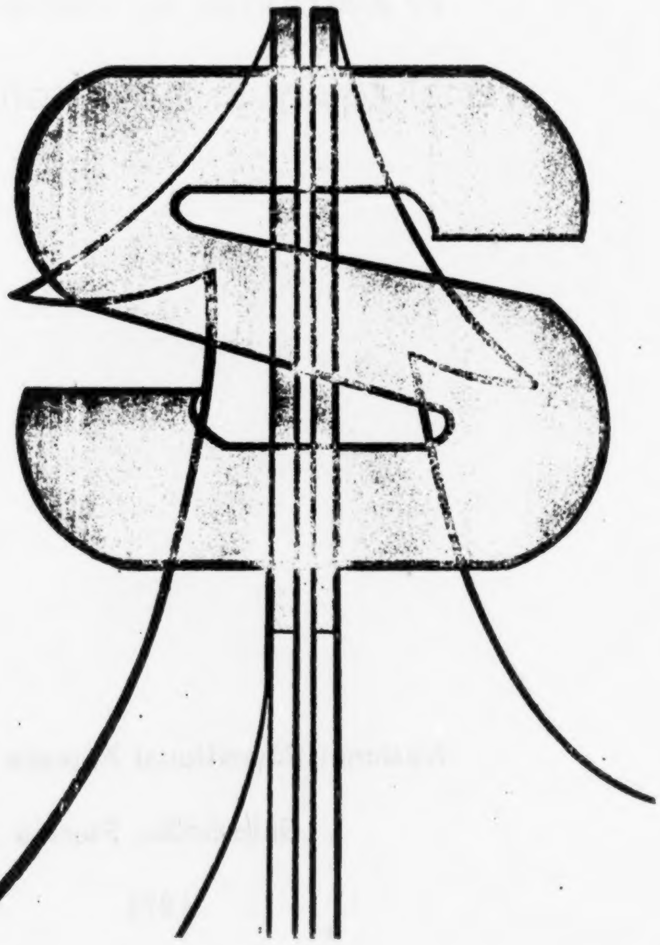
[3] Advisory Commission on Intergovernmental Relations, *State Aid to Local Government*. The Commission, Washington, 1969.

NEFP

FUTURE DIRECTIONS
FOR
SCHOOL FINANCING



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FUTURE DIRECTIONS FOR SCHOOL FINANCING

A Response to Demands for Fiscal Equity in American Education

National Educational Finance Project*

Gainesville, Florida

1971

***Funded by U.S. Department of Health, Education and Welfare**
Office of Education

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Copies of this monograph and of the more comprehensive publications of the National Educational Finance Project may be obtained from the project office:

National Educational Finance Project
1212 Southwest Fifth Avenue
Gainesville, Florida 32601

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NATIONAL EDUCATIONAL FINANCE PROJECT

Roe L. Johns, Project Director
Kern Alexander, Associate Director

Project Research Staff

Richard Rossmiller
University of Wisconsin

K. Forbis Jordan
Indiana University

Gerald Boardman
University of Florida

William Briley
University of Florida

Dewey Stollar
University of Tennessee

Richard Salmon
University of Florida

Oscar Hamilton
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Project Committee

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Harry Phillips
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David Phillips

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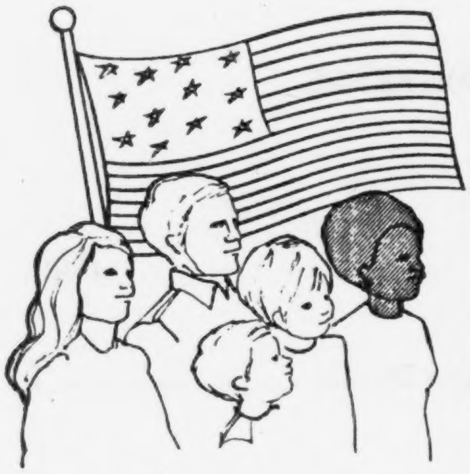


I

Education and the American Dream

American education in the early Seventies is a unique and at times explosive mixture of idealism, public necessity and big business. The idealism which has its roots, along with those of the Constitution of the United States, in the founding days of the Nation, is perhaps best expressed in these last years of the century as a firm belief in the right of all Americans to an opportunity for an equal education. The public necessity of education has long been recognized: a progressive, healthy body politic requires an intelligent, educated citizenry. The big business aspect of education is manifest in the annual allocation to the nation's schools of more than $39 billions in federal, state and local funds or 4.2% of the gross national product; in the 2,359,000 teachers, in the many thousands of policy makers, administrators and other personnel, in the physical plants and equipment, and in all of the other things that go into the awesome task of providing a modern education for the more than 51 million school age children of America.

The business aspects of education are our chief concerns here because without adequate personnel and tools an equal educational opportunity for all is an obvious impossibility. The business of education brings us immediately to the problem of financing such a vast enterprise and to two very basic and important questions:

1. *Where do you get the money needed for education?*
2. *How do you allocate it equally after you get it?*

Each question raises other issues. For example, it is not just a matter of getting money but of how to get it in a fair and equitable manner that will place the burden on those best able to bear it. Then, once the money is in hand, how can it be allocated to insure an equal educational opportunity for all children?

An equal opportunity for all is an integral part of the great American dream. Americans have always said this is true and, in large measure, they have supported it with vast sums of money. American parents rely on it for their children. Equality of opportunity is fundamental in the nation's system of values.

> *What are some of these values we hold so important in our society, values that are the foundation pillars of education? There are many, but certainly any American educational credo must confirm that:*

- We believe the opportunity to obtain a public education should be substantially equal for all children and youth and should be appropriate to their needs.
- We believe public education should strive to remove class and caste barriers and to promote social mobility in our society.
- We believe that every American child, regardless of race, national origin or the economic condition of his parents should be given an equal opportunity in the public schools to develop his talents to their fullest extent in order that he may have full access to the benefits of the American social, economic and political system.
- We believe in American democracy and are convinced that a broadly based and adequately supported system of public education for all children is essential to its preservation.
- We believe that by raising the educational level we not only contribute to the success of popular government, but also to the reduction of poverty, crime and dependence upon programs of public welfare.
- And, most importantly, we believe that the educational opportunity of every individual should be a function of the total taxable wealth of the state and should *not* be limited to the taxing ability of a local school district.

In its detailed study, the National Educational Finance Project found that ideals and fundamental principles of American education must be translated into economic terms if sound and equal financing of the nation's schools is to be achieved.

We Must Find Ways to Equalize Education Among Children

Since children vary in their educational needs, their per pupil costs vary widely and require substantial financial equalization. It is essential to identify the areas of higher cost, —e.g., education for the handicapped, compensatory education, vocational programs—and provide the funds needed to furnish these services. In so doing, we must take a straight look at the differences among children, at the differences in their needs and differences in the educational experiences to which they should be exposed. By the process of weighting different costs it is possible to bring about a high degree of equity in funds for special programs.

We Must Find Ways to Equalize Expenditures Among Districts

Great inequities exist in the availability of funds for education in the school districts of nearly every state. As will be noted in this booklet, the variations are primarily the result of the tremendous differences in the abilities of local districts to finance education and the methods used by the states to allocate their revenues for school support. The time has come to seek new directions in the processes of raising and allocating revenues if we are to achieve the goal of equality in education.

We Must Find Ways to Distribute the Tax Burden Fairly

Financing of the public school systems must not only be adequate, but it should also be provided by an equitable and progressive tax structure primarily based upon ability to pay as measured by income, wealth and consumption.

Equity requires, in addition to distribution of the tax burden on the basis of ability to pay: a) exclusion from tax of persons in the lowest income groups on grounds that they have no taxpaying capacity, and b) a progressive overall distribution of tax relative to income.

In addition to the total taxable wealth of the state, the taxable wealth of the nation should also be utilized for educational financing to insure the quality and equity of public education in every state. Some of the possibilities of federal participation are discussed in Section VII.

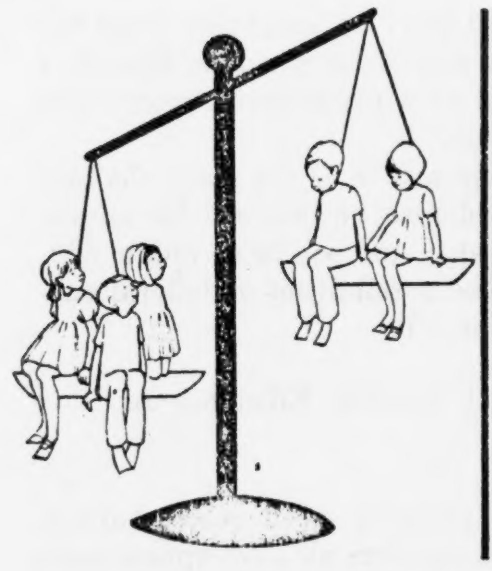
We Must Seek the Highest Possible Efficiency in School Organization

While current tax methods urgently need restructuring, and while federal, state and local districts all have appropriate roles to play in providing public education, decisions concerning education should always be made by the lowest level of government that can efficiently make the decision. The local districts should be so organized as to achieve the greatest possible efficiency in the use of school funds and should *not* be gerrymandered, deliberately or otherwise, to segregate pupils by race, religion, or economic or social class.

We Must Find Ways to Assure Educational Accountability

Accountability, a comparatively new and sometimes disturbing word in education, is in order today. For every dollar put into education comparable value should come out. Everyone is responsible and hence accountable: Congress, state legislatures, boards of education, administrators, teachers, parents and pupils.

Professional educators should carefully evaluate the effectiveness of their activities and should have the necessary freedom to make changes and adaptations whenever necessary to increase productivity and quality.



II

The Myth of Equal Education

Americans have said so often that every boy and girl should have the opportunity for a good education that many believe that is what they actually get in all of the 50 states. There is an assumption that universal education and equal education are synonymous. Is that what happens and are the terms synonymous?

Americans repeat over and over that equality is the keystone of our educational system. The terms good, equal and universal are used somewhat loosely and interchangeably. Which ever term is used, is it true that young Americans get an equal education? Do we practice what we preach?

Does the child living in a poor rural or inner-city school district have access to the same quality education as the child living in an affluent suburb or other wealthy community? Even if the parents of the children in the poorer rural or inner-city districts are willing to make unusual sacrifices and tax themselves heavily, do they still receive equal education?

Does the child who attends a school in a district that manages to raise $500 per pupil per year through struggle and sacrifice have the same opportunity as the child who attends a school that raises $1,200 or more per pupil per year with a lower level of effort?

Can this be equal educational opportunity?

The answer, of course, is NO on all counts.

In a recent important decision by the California Supreme Court it was pointed out that as a practical matter "districts with small tax bases" simply cannot levy taxes at a rate sufficient to produce the revenue that more affluent districts raise, often with much less effort. The court said affluent districts can thus "have their cake and eat it, too. They can provide a high quality education for their children while paying lower taxes. Poor districts, by contrast, have no cake at all."

Certainly the dollar is not the only requirement for equality in education. Nor does the dollar input give a positive index of educational output. Nevertheless, in our society you generally "get what you pay for," unless you are wasteful or not concerned about values and costs. But though greater expenditures do not absolutely assure higher quality in a product, there is a strong presumption that better quality costs more.

On the other hand, one seldom finds superior quality at a low cost except in very unusual circumstances. This logic of the marketplace is applicable to school expenditures. Although there are no doubt schools with high costs and poor quality it is difficult to find high quality at a low cost. One expert in educational finance said it this way: "I never have found a good, cheap school."

The per pupil expenditure does not tell the whole story of quality and equality in education, but it is a significant index of differences among school districts.

Is this the American Dream of which we are so proud? The California Court said that the Golden State's school financing system, which is similar to that of most other states in that it is based largely on local property taxes, "makes the quality of a child's education a function of the wealth of his parents and his neighbors."

And finally the court said that such a financing system is unconstitutional because it violates the equal protection clause of the 14th Amendment, thus discriminating unfairly against the poor.

In the face of abundant evidence that **segregated schools for minority races and ethnic groups are inherently inferior.**

our society has accepted the legal principle that a policy of segregation of schools by race is unconstitutional.

In view of another growing accumulation of evidence, including the California decision, it is now proper to ask:

> Do low per pupil expenditures deny youngsters in some schools and some districts the opportunity for an equal education?
>
> Are there basic differences in the educational needs of some children which require different educational experiences and expenditures if their opportunities are to be equal?
>
> What causes substantial differences in the quality of education from state to state, community to community, school district to school district? Can we accept the statement that "we generally get what we pay for?"
>
> *Wide variations in effort and in ability to support education are a major obstacle to substantial equality of educational opportunity in all states.*

How does this happen?

First:

> There are great variations among the states, regions and school districts in
> —ability or fiscal capacity to raise revenue; and
> —the amount of effort the governmental unit puts forth to support education.

Second:

> The amount of money available for education will depend upon
> —the size of the tax base in relation to the number of pupils served; and
> —the tax rate levied.

Differences in the amounts of money raised per pupil by two districts, which may border on each other, and the resulting differences in the quality of education they offer can be quite marked. Such differences can occur in various ways:

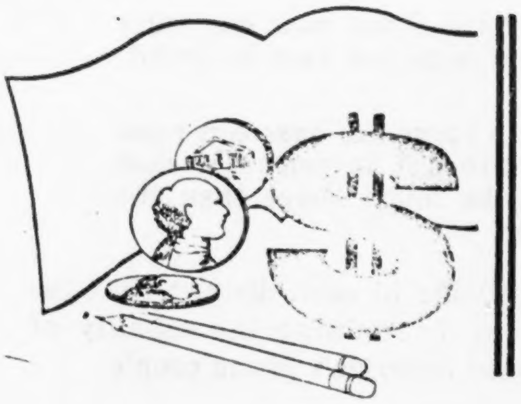
> A poor district with a *limited tax base* can raise relatively little even if a high tax rate is levied;
>
> or
>
> A wealthy district with a *large tax base* can raise substantial revenue even though it levies a modest tax rate, one that may be much lower than the poorer district next door.

The amount of money available in each district thus becomes a fundamental factor in determining the equality of educational opportunity provided America's young people.

The time has come for Americans to say:

THE NUMBER OF DOLLARS SPENT ON EDUCATION SHOULD BE BASED ON THE EDUCATIONAL NEEDS OF THE CHILDREN RATHER THAN THE WEALTH OF THE SCHOOL DISTRICT.

Obviously there are many factors, tangible and intangible that affect the formal education of a child—his home and neighborhood environment, the effectiveness of his teachers and general quality of his school—but a fundamental assumption can be made that equality of resources is the necessary and reasonable starting point toward educational opportunity and equality for all children.



III

A Primer of Education Finance

Where do we get the money to support the public schools?

It is raised by taxes of various kinds levied by the federal and state governments and by the local school district. The bulk of it is raised by the school district from taxes on real property.

In 1970-71 in the nation as a whole, 52% of school revenue was provided by local sources, 41% came from state sources and 7% from the federal government. However, these ratios varied widely from state to state. For example: In New Hampshire 86% of the school revenue was derived from local taxes, 10% came from the state and 4% from the federal government. In sharp contrast, in North Carolina 19% was obtained from local sources, 66% from the state and 15% from the federal government.

Let's look at some of the different forms of taxes:

1 Property Tax

As a general rule, school districts receive about 98% of their local school tax revenue from taxes on property. The major advantages of the property tax are:

- a. It is fairly stable.
- b. Property is not easily moved to escape taxation.
- c. Most benefits go directly to residents of the district.

On the other hand:

- a. It becomes largely a tax on housing.
- b. It tends to discourage rehabilitation of deteriorating property.

c. It tends to affect decisions by business and industry with regard to locations and plant sites.
d. It does not bear equally on businesses, favoring those with a low ratio of property to sales.

There are still more problems. Different assessment practices tend to make it unequal for taxpayers. Then, too, ownership of property is not necessarily correlated with either income or wealth, often having little relationship to the ability to pay taxes. Older persons on small fixed incomes are an example. The yield from a given property tax depends on the industriousness of the assessor and the treasurer. Property tax revenues often lag behind national income. And finally the property tax is used so heavily by local governments it is often not capable of yielding significant increases for local schools when increases are needed.

As a practical matter, the vast majority of school districts are limited to the property tax for local revenue, either by law or by the absence of any statute authorizing some other form of local tax. In the 22 states that authorize the use of non-property taxes by school districts, the amount of revenue raised from such taxes has been generally small while the cost of collecting them has been relatively high. As a result property taxes continue to be the principal source of revenue for local districts, followed by revenue from state sources.

Furthermore, NEFP research indicates that the revenue from non-property taxes levied by school districts *has not* had an equalizing effect. To the contrary, those districts with the greatest fiscal capacity as measured by their property tax base have usually obtained the largest amount of revenue from local non-property taxes.

2 Sales Tax

Although most school districts cannot levy sales taxes, they serve as an important source of school income in the form of grants of state money raised by sales taxes. In 1969, the sales taxes levied by 45 states produced 30% of their total state tax revenue.

The primary advantages of a sales tax are:

a. It is relatively simple to collect.

b. The revenue tends to increase at about the same rate as income increases.

On the negative side:

a. A sales tax on all goods becomes regressive relative to income. This can be overcome to a degree by exempting food and medicine or allowing tax credits against income liability for tax paid on minimum necessary purchases.

b. It may affect economic decisions concerning locations of shopping centers and large retail enterprises. This is particularly true where a bordering state has a lower sales tax or perhaps no sales tax.

c. It may cause economic distortions as when some goods are exempted from taxation and buyers tend to concentrate on the exempt items at the expense of those that are taxed.

3 Personal Income Tax

This is the largest single source of income for the federal government. Forty-one states also levy income taxes, although their tax bases and rate structures vary widely. Local income taxes are not widely used.

The major advantages of the graduated personal income tax are:

a. It is directly related to the most generally accepted measure of tax paying capacity—the income of the taxpayer.

b. It can be adjusted through use of exemptions or credits to take into account special circumstances, e.g., illness of a taxpayer, size of family, unusual expenses or other hardships.

c. It is easy to collect through payroll deductions.

d. It has a high degree of elasticity in that revenue increases as the taxpayer's personal income increases, particularly if the rates are progressive.

The negative considerations are:

a. Revenue declines in periods of economic recession at a faster rate than other tax sources.

b. Unless special care is taken in administrative procedures, personal income taxes can be extremely complicated and can also present opportunities for evasion.

4 Corporate Income Tax

In addition to federal corporate income taxes, forty-three states levied an income tax on corporations in 1970, and took in an aggregate of $3.18 billions which was 7.6% of all state tax collections in that year. However, the nature of the state corporate taxes and their rates varied widely.

The primary advantages of the corporate income tax are:

a. Revenue generally increases with increases in corporate income.
b. It can be equitably applied.
c. It can be structured in such a way as to hold administrative costs and problems to a minimum.
d. It is not likely to cause economic distortions unless the state's rate is much higher than neighboring states.

The disadvantages are essentially the same as those of the personal income tax insofar as administration and compliance are concerned. The corporate tax is not as elastic as the personal income tax, but has more revenue elasticity than most other types of taxes.

5 Other Taxes

Excise taxes on motor fuel, tobacco and liquor produce substantial revenue for the federal and state governments. Such taxes have a very limited use at the local level and little if any potential for greater amounts of revenue in the future.

Estate and inheritance taxes are levied at the state level, but do not produce much revenue and have only a limited potential as a future source of revenue.

Severance taxes on minerals and oil are levied, but are not a major revenue producing source of taxation, particularly in states with limited mineral and oil resources.

There are no major unused tax sources! Not all sources are used in every state, but it is likely, in view of heavy demands for revenue, that all states will use all major tax sources in the immediate future. Thus, it would seem more productive to concentrate on improving the yield of existing tax structures rather than to search for new sources.

Three Important Concepts of Taxation

1. *A tax should not alter economic behavior.*

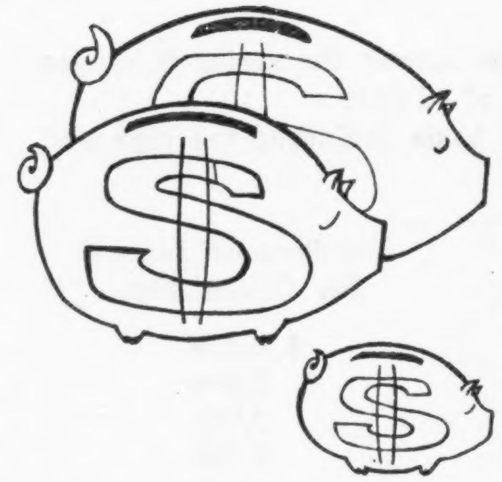
   It should not cause goods or services to be reduced or leave the state; it should not alter attitudes or become the basis for decisions on locations of plants, buildings or business sites, and it should not reduce the willingness of people to work and to produce.

2 *A tax should be equitable.*

All persons in the same economic circumstances should be treated equally. The tax should be based on the taxpayer's ability to pay and should be progressive in relation to his income or at least should rise in proportion to the taxpayer's income.

3 *A tax should be collected effectively.*

Tax statutes should not have loopholes, nor should they be so drawn that they can be evaded.



IV

Variations in Fiscal Capacity and Effort

Variations Among the States

Since it was long ago determined that education should be a state function and a state responsibility, and that local school districts have no inherent power to levy taxes, NEFP examined variations in fiscal capacity and effort among the states. Two basic methods were used to make the measurements:

First:

The states were compared on economic indicators such as a measure of income per capita or per household to determine relative ability of the state to raise revenue for school purposes.

Second:

The states were compared on the basis of available tax bases and the amounts of revenue these bases would produce if they were subjected to various rates of taxation.

However, personal income per capita is not wholly satisfactory for purposes of comparison inasmuch as it ignores the fact that taxpayers must buy the necessities of life and must also pay substantial federal income taxes.

In its studies, the NEFP developed a net personal income formula by making two deductions from total personal income: 1) $750 for each person for food, clothing and shelter, and 2) the amount of personal income paid as tax to the federal government. The resulting figure was the *net personal income* and a better measure for determining the amount of income available to a state in its tax program.

On a national basis the net personal income amounts to

69.55% of personal income, but among the states it ranges from a high of 74.68% to a low of 58.94%.

Some examples, on a dollar basis, including the high and low states:

Rank	*State*	*Net Personal Income Per Capita, 1969*
1	Alaska	$ 3,369
5	California	3,096
10	Delaware	2,781
15	Ohio	2,[illegible]
20	Minnesota	2,538
25	Wyoming	2,338
30	Vermont	2,239
35	Oklahoma	2,056
40	New Mexico	1,909
45	Louisiana	1,784
50	Mississippi	1,292

Obviously, some states, because of more industry, business and resources of one kind or another, have a greater potential for raising revenue because of the higher individual incomes of their residents.

The next most important factor is the amount of effort a state puts into the business of supporting state and local government, including the schools, in relation to its potential fiscal capacity.

Since about one third of state and local taxes go to support elementary and secondary education, a state with a relatively large potential for raising revenue, i.e., high per capita income, may not have to make the same effort to support its schools as states with a low revenue potential.

If state revenue is largely based on net personal income, two reasonable indices of state effort to support education are:

the percentage of net personal income devoted to elementary-secondary schools,
the percentage of the tax revenue of the state and local governments that goes to education.

Once again there are wide ranging differences with the

citizens of some states providing a larger percentage of their net personal incomes to elementary-secondary education than those of other states. Some examples:

Rank	*State*	*Elementary-Secondary Education as a % of Net Personal Income, 1969*
1	New Mexico	8.9 %
5	Mississippi	7.84
10	Minnesota	7.36
15	New York	6.99
20	Colorado	
	Wisconsin	6.61
25	Michigan	6.44
30	Alaska	6.21
35	North Carolina	5.89
40	Oklahoma	5.66
45	Illinois	5.39
50	Nebraska	5.00

There are similar variations in the amounts state and local governments allocate to elementary and secondary schools out of their revenues. On a percentage basis a dozen show differences ranging from a top allocation of almost 40% to a low of little more than 25%. The examples:

Rank	*State*	*% of State and Local Tax Revenue Allocated to Elementary-Secondary Education, 1969*
1	Utah	39.73%
5	Pennsylvania	38.87
10	Illinois	37.38
15	Virginia	36.30
20	Maine	35.65
25	North Carolina	33.99
30	Texas	32.57
35	Idaho	
	Georgia	32.11
40	California	30.43
45	Hawaii	29.18
50	Wyoming	25.51

These, and other more comprehensive studies, show that there are substantial variations in the fiscal capacity of the states to raise revenue whether one uses one measure, e.g., per capita income, or composite techniques.

The differences in state educational expenditure levels are explained largely by variations in their fiscal ability.

The same studies show there are substantial differences in the willingness of the states to levy higher than average taxes on their populations. A state with limited wealth can approach the expenditure levels of wealthier states only if there is a willingness to bear higher tax burdens.

The five highest ranking states in terms of fiscal ability had twice as much net personal income per capita as the lowest five states. The top five tax effort states devoted an average of 1.56 times as great a percentage of their net personal income to elementary and secondary education as did the lowest five. Therefore, there are substantial differences among the states not only in taxpaying ability but also in willingness to support public education.

In 1970-71, the five states with the highest net income per capita had current expenditures for elementary and high schools which averaged $1,000 per pupil in average daily attendance, while the five lowest states had an average expenditure of only $574 per pupil.

SINCE THE STATES ARE NOT ABLE TO ALTER THEIR FISCAL ABILITY IN ANY SUBSTANTIAL AMOUNT, IT WOULD APPEAR THAT ONLY THE FEDERAL GOVERNMENT IS IN A POSITION TO ELIMINATE THE FISCAL VARIATIONS AMONG THE STATES INSOFAR AS EDUCATION IS CONCERNED.

Variations Among School Districts

Variations among districts within a state are greater than the differences among the states in their support of education. Studies have shown wide ranging differences in the fiscal capacities of local governments. For example, a study of 215 standard metropolitan statistical areas, as defined by the Census Bureau, showed the revenue capacities for local government varying from a high of $343 per capita to a low of less than $100 per capita.

Fiscal efforts by local governments range from a high of 46% above the national average to 40% below the average.

In one study of 222 school districts in eight widely scattered states for the school year 1966-67, the mean school tax rate on market value of property was 11.479 mills. The districts were classified by type of district and the average tax rate ranged from a high of 13.892 mills in the developing suburbs to a low of 8.971 mills in the major urban core cities. Interestingly enough, the major urban core city districts had the highest mean true market value of property per pupil of any class of school district. However, the major core cities usually have a higher tax rate for municipal government than for other types of school districts.

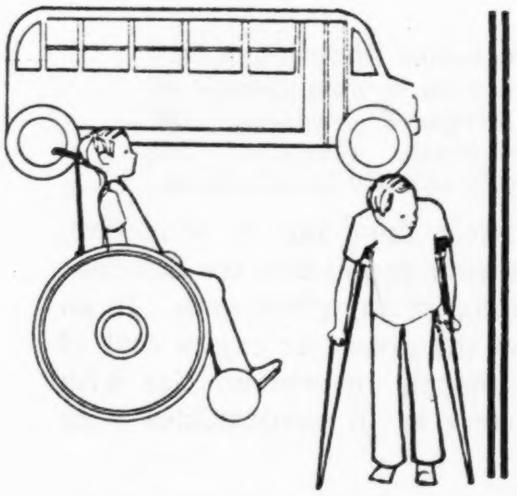
The range in market value of property per pupil in states with large school districts such as Florida might be as great as 10 to 1. In states with a large number of districts, many of which are small, the range in wealth per pupil is typically 50 to 1.

Since the present system of relying heavily on property taxes results in inequities in taxation and inequality of education as noted in Section III, what can a local school district do on its own to achieve some sort of equity on both counts? The answer is "not much." About all it can do under the present system is tax its property owners at an extraordinarily high rate in an effort to provide equal education. Even then it is not always possible to achieve the goal because of legal restraints on the amount of taxes that can be levied and because of understandable taxpayer resistance.

The situation is intolerable if one believes in equality of education for all youngsters and has consideration for the tax-

payers who must support many other governmental functions along with education. Inequities from district to district are wholly inconsistent with our belief in educational equality and may in fact be a violation of the equal protection clause of the 14th Amendment to the Constitution of the United States.

In all of this, only Hawaii is in the clear because the tax revenues for its schools are all obtained from the state and federal sources. In all of the other 49 states, inequity of taxation and inequality of education exist in a greater or lesser degree.



V

Factors Which Affect Educational Needs and Costs

Within the vast area of the 50 states, embracing several time zones and 3,615,211 square miles, the configuration of the population is of major importance in all phases of national life, including education. For the latter there are fiscal implications in the fact that:

35% of all Americans live in cities of 50,000 or more.

38% live in cities of 2,500 to 50,000.

27% live in rural America which includes villages up to 2,500.

Behind the bare statistics of these three classifications some very dramatic and colorful contrasts are afforded by the continental United States. They take in such gigantic cities as the compressed New York metropolitan area and the sprawling metropolis in the Los Angeles basin; the rolling farm lands of the great Midwest, dotted with towns and cities; the wide spreading great plains, deserts and towering mountains of the West; and the Southland which ranges from the semitropics of the Gulf to the Blue Ridge Mountains of Virginia.

The education available to children in all of these varied parts of the nation is as different as their topography, their resources, their people and the many social, economic and governmental problems with which each must cope, including the complex and inequitable system of local property taxes which carries the burden of such a large share of school costs.

At least 80% of the 18,000 school districts in various states do not have sufficient enrollments to provide even minimally adequate programs and services without excessive costs. However, this generalization does not apply equally to all states.

Population characteristics affect financing of education. For example, the needs of a growing population are different from those of a declining population in any given area. In an area with a declining population the gross per capita cost of education will not increase as sharply in communities with few special programs and services as in communities with broad programs.

The age characteristics of the population also are important, with trends in birth rates having a direct impact on school finance. In some communities there is a heavy concentration of persons 65 and older. Where this occurs there may be an increasing demand for various adult education programs or a demand for services that compete with education for the available tax money. Or the older residents, having reared their children and sent them on their way, may not have as much interest in schools and school support as they did in their younger, child-rearing days.

Mobility is a big factor in an America that seems to be constantly in transit. In one community the schools will close because the people leave; in another, with new people pouring in as a result of a new industry or the opening of a new resource or housing development, the local schools will need to expand their facilities quickly and often at more expense than a slower paced and more orderly expansion would require. *Substantial numbers of pupils attend anywhere from two to four schools per year with some slippage in individual progress each time a move is made.* Many schools in the inner cities have an annual turnover equal to more than twice the number who enroll during the first week of the school year!

The composition of the mobile school population is also an important factor. Often the children speak little or no English, come from varying backgrounds: Mexican-American, Puerto Rican, Indian or other ethnic groups.

The socio-economic composition of the population of a school district affects the financing of education in special ways, whether it is indigenous to the district or migratory. For example:

> Children in culturally impoverished areas often require more services to compensate for handicaps and learning difficulties.

While the crest of the farm revolution and resulting migration to villages and small cities has passed, education cannot rest on its oars. Migrations of families at all economic levels will continue, primarily to the big metropolitan areas where industry and technology are concentrated.

However, as population leaves one area the needs of that area will not decrease as fast as one might expect because schools in sparsely populated areas often require twice the expenditures per pupil for staff, materials and buildings as schools in more populous areas.

To meet these challenges two very fundamental changes are necessary:

1 The governmental and economic structure on which taxation depends must be revamped; and
2 Consolidations of inefficient school districts and school centers must be stepped up.

Still Other Factors Bear on Needs and Financing. There are a number of kinds of programs which will require financial support over and above that required for typical schools if we are to have equality of education.

It is axiomatic that programs that require specially trained instructors, special equipment, supplementary materials, individually designed curriculums and even specially designed classrooms and schools cost more, often much more, than the basic elementary and secondary programs provided by most school districts.

WHAT ARE SOME OF THESE SPECIAL EDUCATIONAL NEEDS OF CHILDREN?

1 Early Childhood Education There is a growing recognition that educational programs for children in the three to

five year age bracket are important in meeting the needs of children in these formative years. The current programs range from the traditional kindergartens, which are caring for slightly more than three-fourths of the five-year-olds, to day-care centers, nursery schools and parental education.

2 Special Education for the Handicapped Approximately eight percent of the total school population will require special education programs to assist in overcoming mental and physical handicaps. Children in these categories have needs which often require that they be separated into special classrooms and be taught by teachers with special knowledge and skills. Other categories of handicapped pupils are taught in classrooms with nonhandicapped pupils, but need supplementary services. In many instances, nonteaching specialists of various kinds are also needed.

Because of family mobility and because many families choose their residence on the basis of the availability of programs to help their handicapped child, there is apt to be a concentration of such children in specific school districts.

3 Compensatory Education Young children and older youth with serious learning problems, emotional difficulties and social maladjustments require tutorial and remedial educational assistance. These children are often the victims of impoverished home and neighborhood environments, hypertension, emotional illness and lower than average mental ability. Some may require institutional care while enrolled in compensatory programs. Such programs for children five and under are usually short-term in nature, but programs for the children in the age 6 to 12 bracket may run longer and be more costly.

The programs are directed primarily, in the older group, to victims of impoverishment and the ills listed above, but also to delinquents, including school dropouts, unmarried pregnant girls and a special group of disoriented dropouts. This last group is made up of youth so disorganized they can no longer function in the regular school environment. They must be served in "continuation schools" which are specifically designed for therapy and rehabilitation.

Most of those requiring compensatory education need nothing so drastic as institutionalizing and special therapy, and can be helped by instruction in regular groups, additional tutoring, small group instruction, extensive counselling and other personalized attention. Core cities and some rural areas frequently have a much higher percentage of disadvantaged pupils in their school enrollment than suburban school districts.

4 Vocational Education In an expanding technological society, the necessity for youngsters to develop vocational competence along with personal-social traits which will help them relate to other persons, both on and off the job, is ever more urgent. Such programs should be designed to help young persons evaluate their own aptitudes, interests and abilities as they relate to the hundreds of occupational opportunities offered by modern society. Effective citizens and family members require greater knowledge and skills in consumer and environmental education.

Despite the needs and demands of our industrial-technological society enrollments in public school vocational programs have always been low, leading to the fact that needed vocational programs are lacking in many schools.

5 Adult and Continuing Education In the years immediately ahead, programs for adults will require expansion. They generally fall in three categories: 1) young adults and persons on low incomes seeking programs that will boost their earning capacities, 2) high-income adults seeking programs for leisure and non-income activities or simply self-improvements and 3) programs that are mandated for apprenticeships and licenses.

While educators are agreed that the demand for such programs is heavy and will get heavier, most programs in existence today consist of ad hoc collections of short-term courses arranged as teachers can be found and as interest is manifested. Few consist of firm curriculums or have the depth that many adults desire.

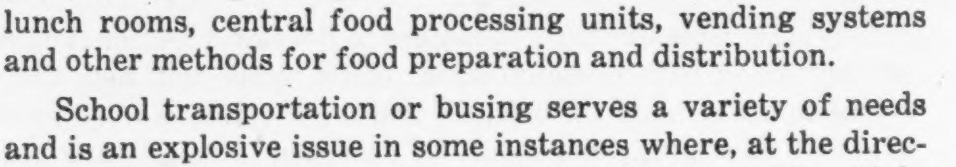
6 Special Services—Food and Transportation At least 37% of the nation's 51 million school children participate in the National School Lunch Program. About 25% of the lunches served go to children from needy families. Cities with populations of over 250,000 serve lunches to the lowest percentages of children because of crowded conditions, lack of facilities and the tradition of "home food service" in neighborhood schools. In 36 large cities the 1,083,263 pupils attending 1,883 schools received no food service whatsoever. However, the demand is growing with the result there will be need for lunch rooms, central food processing units, vending systems and other methods for food preparation and distribution.

School transportation or busing serves a variety of needs and is an explosive issue in some instances where, at the direction of school boards or the courts, it is being used to attain socio-economic-ethnic balance in the schools. It provides a commuting method for students who live beyond walking distance to their schools and facilitates the operation of special services, such as those for the handicapped.

EQUALIZING EDUCATIONAL OPPORTUNITY

> If special programs are more costly than basic elementary and secondary school programs—and there is no doubt about it—how are we to determine the financial allocations necessary to support these special programs?

For example:

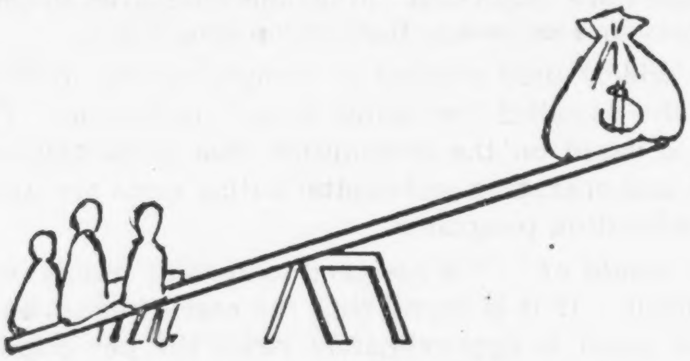


Education for the handicapped *plus* extra funding may be equal to the basic education provided for all children. Thus, special education programs tend to be more equal as the *cost differential* is added.

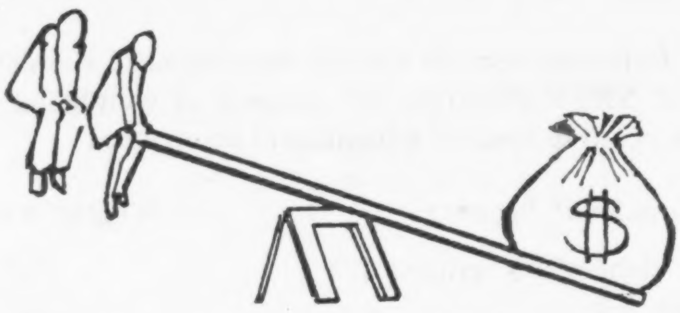
TO EQUALIZE EDUCATIONAL OPPORTUNITY WE WILL HAVE TO CONSIDER:

> **Differences in the ability and capacity to raise educational funds.**
>
> **Differences in youngsters and their needs and the expenditures necessary to meet the needs.**

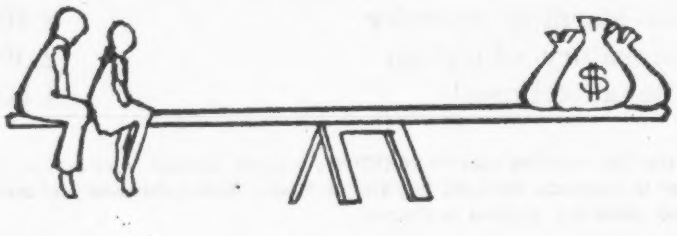
SOME DISTRICTS HAVE AN INADEQUATE TAX BASE AND ABILITY TO SUPPORT SCHOOLS:



THE TAX BASE IN SOME DISTRICTS PROVIDES EXCEPTIONAL SUPPORT FOR THE SCHOOLS:



EQUAL EDUCATION FOR THE HANDICAPPED, FOR INSTANCE, WILL REQUIRE GREATER EXPENDITURES:



How do we establish the cost differentials necessary to bring about equalization?

EDUCATIONAL COST DIFFERENTIALS

Educational programs designed to meet the different needs of pupils vary widely in per pupil cost.

As noted earlier, special programs for exceptional (handicapped) children, and for vocational courses and compensatory classes are "high cost" programs compared to the typical elementary and secondary instruction programs.

One widely used method of comparing the differences in cost is the so-called "weighted pupil" technique. This procedure is based on the assumption that pupil-teacher ratios are less and operating and capital outlay costs are greater for special education programs.

The weight of "1" is assigned to regular pupils in elementary schools. If it is found that the cost of educating an exceptional pupil is approximately twice the per pupil cost of regular pupils in elementary schools, then the full time pupils enrolled in classes for the exceptional are given the weight of "2".

The following sample weights computed in the detailed research of NEFP illustrate the concept of weighting to determine the relative costs of educational programs:

Educational Program	*Weight Assigned*
Basic elementary grades 1-6	1.00
Grades 7-9	1.20
Grades 10-12	1.40
Kindergarten	1.30
Mentally handicapped	1.90
Physically handicapped	3.25
Special learning disorder	2.40
Compensatory education	2.00
Vocational-technical	1.80

Note: **The weights used by NEFP are weights derived from current practice to illustrate methods, but are *not* final. New techniques and methods may cause the weights to change.**

This weighting means for example, if the state foundation program provides $500 for an elementary pupil, 1.8 times as much or $900 would be provided for a full time pupil enrolled in vocational education.

Another method for determining differential costs is the "adjusted instruction unit" technique. If we assume that one instructor, plus the necessary supporting staff and facilities, is required for each 25 pupils in regular elementary schools, then 25 pupils becomes an "instructional unit."

Sample numbers of pupils per instructional unit for the various types of programs illustrate this concept:

Educational Program	*Pupils per Instructional Unit*
Basic elementary grades 1-6	25.00
Grades 7-9	20.83
Grades 10-12	17.86
Kindergarten	19.23
Mentally handicapped	13.16
Physically handicapped	7.69
Compensatory education	12.50
Vocational-technical	13.89

SCHOOL FACILITIES

The school building shortage is a reality which cannot be overlooked in school finance programs. Even with the unprecedented increase in school construction since World War II, a deficit of 500,000 classrooms remained in 1968. This backlog of needed construction accumulated during the depression years and World War II. Especially in urban districts antiquated and educationally obsolete classrooms which normally would have been replaced have remained in use.

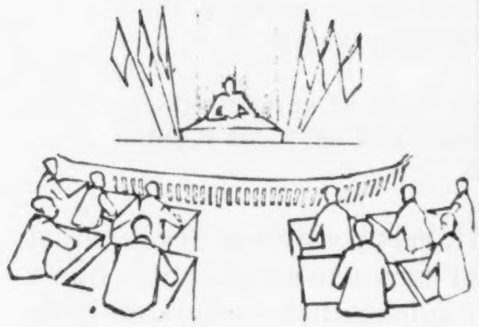
Between 1948 and 1968 the number of classrooms constructed each year increased from 30,900 to 75,400, and the average expenditures per classroom increased from $32,815 to an estimated $67,432. In 1968 the average construction costs per classroom ranged from a high of $79,151 in Pennsylvania to a low of $30,681 in Mississippi.

In the decade of the 1970's the nation will need approximately 120,000 classrooms per year at an estimated annual aggregate cost of $7.8 billions in 1968-69 dollars. There are those who contend that population control and changes in educational programs such as the extended school year will reduce the need for new and expensive building programs, but often these new educational programs require additional funds in the form of more salaries and additional equipment and materials as well as increased maintenance costs.

The need for new school construction will continue as the public seeks additional educational programs and services and as people move about among and within states and local school districts. Even though a state or local district may be having little or no enrollment growth, new school construction may be required because changes in housing patterns have resulted in an enrollment decline in one area and growth in another. Better utilization of facilities may provide limited relief, but the need for additional and replacement classrooms will remain.

The need for additional school construction is self-evident, but the solution is more difficult. Historically, local school districts have had to assume the primary financial burden for school construction. In programs which ranged from mere token support to responsible partnership 35 states provided funds to local districts for construction in 1968-69. However, in many states heavy reliance on local property taxes, restrictive debt limits and cumbersome referendum procedures have made it difficult for local districts to provide needed classroom space.

If these new construction needs are accurate, positive action must be taken to provide the needed funds or a moratorium on construction will result with millions of school children being ill-housed and ill-educated. Among the possible alternatives are: 1) state and local indebtedness limits can be increased, or 2) structural changes can be made in state and local tax systems, or 3) the state can become an active participating partner in financing school facilities, or 4) federal support can be provided for school construction. In view of the already overburdened local property tax there seems to be little choice except for the state and federal governments to provide funds in the form of grants for new construction and payment of existing debt.



VI

Responsibility for Achieving Educational Equality

Q. Who has the authority and responsibility to eliminate educational inequities within a state?

A. The state.

The constitution delegates the responsibility for education to the states and the states in turn created the school districts for administrative purposes and gave them authority to levy taxes. It follows that the states are responsible for the inequities in fiscal capacity which exist among the school districts. It also follows that the state has both the authority and the obligation to remove such inequities. It has the power to reorganize the districts and change their taxing authority as needed. If a state chooses to retain its existing school district organizations and their taxes it can, as many states have already done, distribute school aids in such a manner as to offset inequities.

Among the courses open to the state:

> It can eliminate the local district's authority to levy regressive property taxes, providing the district instead with the entire cost of its program from state and federal sources which are derived principally from income and consumer taxes.
>
> If it choses to retain the existing system it can, as most states do at the present time, reduce inequities in fiscal capacity by providing more state funds per pupil to the districts of less wealth than to the districts of greater wealth or it could entirely eliminate inequities by distributing whatever amounts of state school aid are required to eliminate the differences in local wealth per pupil.

> It can reorganize local districts to increase their efficiency and reduce variations in wealth.
>
> It can provide for the extra costs of special education programs and the specialized services needed by some pupils and schools.

As will be seen in Section VIII, it is possible to design fiscal systems that approach the ideal of complete equalization. Some plans provide for a high level of equalization; others do little or simply perpetuate inequalities.

Several general rules of thumb must be considered in the search for equalization:

1 Full state funding is the surest way to achieve complete equalization. But if local school districts are to retain taxing authority, then equalization begins only as the level of state involvement rises above the local effort. No equalization is possible if state dollars are simply matched with local funds on a dollar to dollar basis.

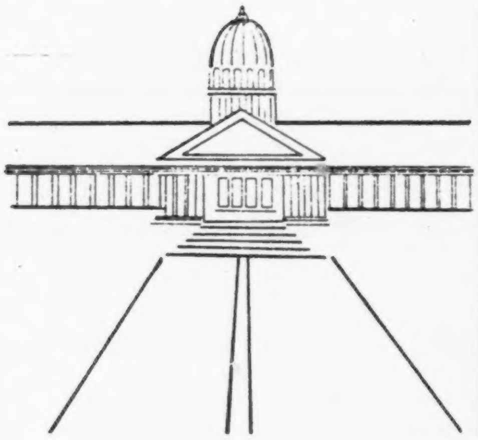
2 When state funds are allocated as uniform flat grants on a per teacher or per pupil basis without taking into consideration necessary variations in unit costs and in local taxpaying ability, very little equalization is achieved.

3 As the state takes into account variations in unit costs, the possibility of equalization through the flat grant method improves somewhat.

4 Most "equalization plans" are designed to assure each school district an agreed upon foundation level of financing per pupil. There are various kinds of plans which provide more equalization than the flat grant type of aid. Under these plans state funds are allocated to the districts to fill the gap between locally raised dollars and the support the state deems necessary for each pupil.

5 Even the "equalization plans" may be inequitable if a high degree of local leeway is allowed above the state foundation financing level.

> *Equal education can be provided by the school districts only if they have a high degree of equality in financial support. The only way this can be achieved is through a state tax structure and allocation plan which provides each district equal access to fiscal resources.*



VII

The Federal Role

In 1931, the National Advisory Committee on Education, appointed by President Hoover, said that the American people were justified in using the federal tax system to give financial aid to the states, provided they did not delegate control to the federal government. Seven years later, the United States Advisory Committee on Education, appointed by President Roosevelt, said federal grants should be made available to the states for "all types of current operating expenses for public elementary and secondary schools." The Committee predicted that the American people would object to any use of federal aid as a means of controlling education.

The two reports and subsequent studies emphasized the need for general purpose grants to supplement state and local school tax revenues. In the past few years, however, rather substantial federal aid shifted to categorical grants for narrowly defined purposes.

Among the major road blocks to federal aid for general purposes are the nationwide controversies over school segregation and aid to nonpublic schools.

However, such special issues aside, it must be recognized that all sorts of educational problems transcend state lines, that educational deficiencies cannot be quarantined within state boundaries and that educational isolationism on the part of the states would be unsound national policy. The mobility of today's population makes it clear that the quality of education in one state materially affects all other states.

The federal government clearly has a responsibility to strengthen public schools in all of the states.

Only by so doing can any state be protected from the spillover effects of educational neglect in other states.

In addition to strengthening the general on-going educational program of each state the federal government has special responsibilities to:

Disadvantaged Children Culturally disadvantaged families migrate from one state to another in great numbers and it is a worthy purpose of the federal government to assist the states in providing compensatory education for the children from these families.

Vocational Education Although the federal government has done considerable work in this field, it is generally recognized that unemployment and poverty cannot be controlled without suitable training for the world of work. The economic health of the nation requires sound vocational programs for the citizens of all states.

Handicapped Children Many children are physically, mentally or emotionally handicapped. It is an appropriate purpose of the federal government to assist the states in providing the children the special educational services necessary to give these children a chance to share in the American dream.

Bridging the Gap Another worthy purpose for federal action is to make contributions to the public schools to compensate for deficiencies in the school tax base resulting from the tax exempt status of federal property.

School Food Services For many years the federal government has recognized that "promotion of the general welfare" includes assisting in the elimination of hunger and the improvement of the health of the nation. The appropriation of federal funds for the school food service programs, including school lunch, school milk, special assist-

> ance for needy and similar programs, are consistent with legitimate national purposes.

Whatever federal grants are made in the days ahead, they should NOT by-pass state governments; instead, federal grants for public schools should be made to the state education agency for allocation to local schools in accordance with state plans.

Amounts of federal funds to individual states should be determined by objective formulas and in no case should a federal grant be contingent upon meeting requirements which prevent a state from developing a sound and equitable state finance plan. Only by preserving the right of a state to adjust its financial program can the state discharge its obligation to the overall education partnership.

Accounting and auditing safeguards for federal funds should utilize the procedures that the states use to safeguard their grants to local systems. Separate accounting and auditing procedures should be superimposed on the state processes only if the latter are inadequate.

Since there are currently in operation 132 educational programs administered by the U.S. Office of Education, the school lunch program by the Department of Agriculture, education programs for Indian children by the Bureau of Indian Affairs, and numerous science programs by the National Science Foundation, a fair question is:

> *Does the combined effect of all federal programs promote the development of adequate public school programs in all states?*

There are serious questions about the effective operation of federal aid programs. There is evidence that the combined effect of numerous categorical aids has produced a deluge of red tape that has hampered public schools; that educational talent has been wasted in preparing applications for small amounts of federal money; that the emphasis upon innovation, and the search for funds to subsidize it, has resulted in the neglect of programs which have proved valuable in the past. In short, there is a growing conviction that the constantly expanding list of federal categorical aids has produced confusion, instability and distortion of educational emphasis.

In its analysis of federal categorical grants, NEFP found that temporary programs tend to continue beyond their usefulness and that if they were excluded it would be possible to consolidate continuing categorical aids into six major blocks which would simplify application and reporting procedures under state plans. The six blocks:

1 Vocational Education
2 Research and Development
3 School Food Service
4 Education for Handicapped Children
5 Education of Children of Low Income Families
6 Compensation to Schools for Federal-exempt Property

In addition to such block grants, federal action is needed to increase general purpose income for elementary and secondary schools. One approach might be to relieve the states of some of their other burdens, especially welfare costs. However, even if this were done and then supplemented with a revenue sharing program, adequate educational programs could not be achieved in all states unless an adequate part of the shared revenues was earmarked for education.

Herewith are three plans and one combination for general federal aid to education:

> Plan I A national foundation program for a minimum level of education for all districts financed by a combination of federal, state and local funds. Under this plan, the federal government would provide the differences between the cost of a national uniform foundation program of education in a state and the amount of funds that a state could raise in state and local school revenue from a nationally uniform tax effort in proportion to the ability of that state.

Plan II Equal grants per student with no requirement of state or local effort to support education.

Plan III Equal grants per student for equal required state and local effort in proportion to ability. This is the same plan as Plan II except that each state in order to receive its full entitlement of federal funds, would be required to make a nationally required minimum tax effort for schools in proportion to its ability.

Plan IV A combination of Plans I and II. Each of the approaches emphasizes a different federal purpose. The purposes would be to:

Equalize educational opportunity among the states.

Transfer the administration and control of federal aid from Washington to the states.

Relieve the state and local tax burdens of all states.

Stimulate or at least preserve state and local tax efforts to finance education.

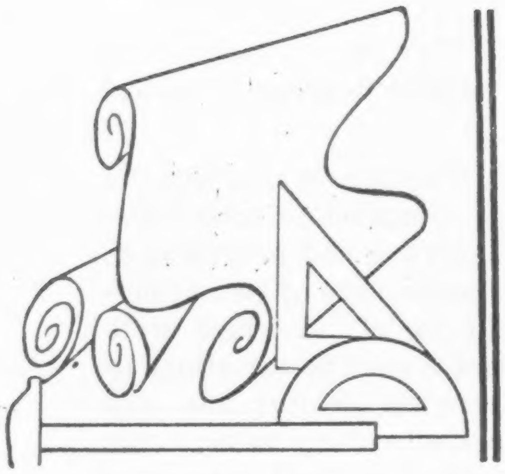
Develop a plan which would be politically acceptable to all or most of the states.

Plan I, or the national foundation program approach, equalizes the financial resources available per pupil better than any other approach. It would also tend to transfer the control of federal aid from Washington to the states. However, it would not relieve state and local tax burdens in all the states, nor would it stimulate state and local effort in all states because under this approach a number of states would receive little or no aid, hence would not be likely to find the plan politically acceptable.

The other plans, too, have strong and weak points. It is not anticipated that any of them would result in a reduction of present state and local support to education. However, it is assumed that the need for further increases in state and local taxes to meet rising school costs would not be so urgent if the federal government supplied 20% or, better yet, 30% of revenues for the public schools.

What is the best plan then? The best one can be determined only in terms of the purposes desired to be served by general federal aid and their order of importance. It is, of course, the responsibility of the people, acting through their elected representatives, to make the determination.

On the question of controls, with proposals ranging all the way from none at all to detailed controls similar to those now being exercised over some categorical grants, the National Educational Finance Project favors the minimum of controls over federal aid necessary to achieve the purposes of the grant.



VIII

Blue-Prints for State Educational Equality

All states are faced with the monumental task of providing enough money to assure equal educational opportunity for their citizens. It can be accomplished in a number of ways. It is possible to create a number of alternative models and variations of them for a state to use in financing its school system. Clearly no two states are identical. There are, however, many common elements in their school districts and in their financing problems.

The NEFP found it possible to use certain broad classifications to create alternate models which could be compared for their desirability in achieving the primary educational goal of equal education for all. Through the use of modern research technology and computer systems, it is possible to develop reasonably accurate processes and to analyze and evaluate the probable consequences of the alternate models. Using these models, a state may simulate alternate patterns of school finance to determine which is most effective in meeting the needs of the state, the local school districts, the taxpayers and the students.

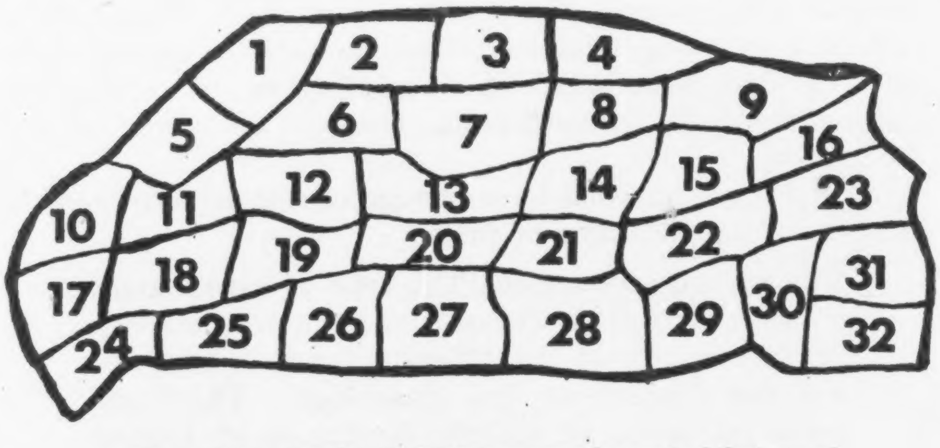
School finance models have two major dimensions—raising of revenue and allocation of funds.

> **The Revenue Dimension** The type of taxes levied by each level of government and the progressivity or regressivity of the different types of taxation are the concern of this dimension. The three principal types of models (exclusive of federal support) are those with complete state support, those with joint state-local support and those with

complete local support. Further considerations can be given by adding various degrees of federal support.

The Allocation Dimension This aspect concerns the ways in which funds are allocated to school districts to meet the needs, services and programs of students. The allocation models are of two principal types: the "flat-grant model" in which state funds are allocated without regard to variations in the districts' local tax paying ability; and, the "equalization model" which allocates greater funds to districts of less wealth (i.e. local taxpaying ability) than to the districts of greater wealth.

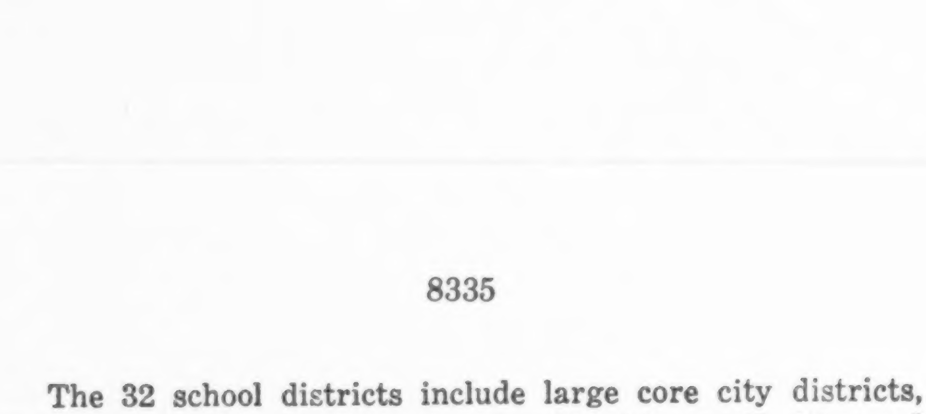
School finance models designed by NEFP were based on a prototype state that had a wide range of conditions among its school districts. The model state had 32 districts of at least 1,800 pupils each in order to eliminate the most inefficient districts from the prototype state. All of the districts of the prototype are types of real school districts that can be found in most states. It is impossible to develop a school finance plan which is equitable to children and also equitable to taxpayers in a state with inefficient small school districts gerrymandered so as to sequester wealth and to disequalize educational opportunity.



The prototype state has 32 districts representing most of the types of school districts now found in the U.S.

The 32 school districts include large core city districts, suburban districts, medium size city districts, small cities and rural districts. Also included in the prototype state are districts with high and low equalized valuation per pupil, districts with high and low personal income per pupil and districts with high and low percentages of culturally disadvantaged.

For the purposes of illustration in this volume, eight districts from the prototype state were selected to show how school finance models can be simulated and how the district would be affected by various methods of obtaining and allocating revenue.



The eight districts selected for the following examples can be identified as follows:

District 1 A large suburban municipality, surrounded by other large suburbs. The backbone of the economy of this district is a very large heavy manufacturing plant, plus several small machine shops. Housing in half of the district is early 1900 vintage and half is post World War II. This district ranks 1st in the state in terms of property tax evaluation per pupil and 2nd in personal income.

District 5 A largely rural district with portions relatively isolated geographically. Over 75% of the land is arable, so agricultural production and food processing provide the principal employment opportunities. There is also a resort and vacation area in a portion of the district. The district ranks 5th in property value per pupil and 6th in personal income.

District 9 This is a sparsely populated rural district. Food production and agricultural activities constitute the principal sources of income and employment, with some resort and recreational attractions. The district ranks 9th in property value per pupil, but 28th in personal income.

District 13 A rural district with the largest farms in the state. Agriculture is about equally divided between crops and livestock. Food processing is the chief industry. Summer recreational resorts supplement the economic base. The district ranks 13th in property value per pupil and 18th in income.

District 17 A suburban rural district with a city of 28,000 that is part of the state's largest metropolitan area. Industrial plants and a large airport are found in the district. There is some farming, fishing and recreational activity in portions of the district. Two medium sized colleges are found within the geographic area. Although the district ranks 17th in property value per pupil, it ranks 14th in personal income.

District 21 This district includes the state's leading industrial center, although it is basically a rural valley which includes the state's sixth largest city. Over two-thirds of the land area is devoted to fruit production, livestock and dairying. The economy is strengthened by several heavy industries and serves as a wholesale distribution center. Although the district ranks 21st in property value per pupil, it ranks 17th in income and 12th in sales.

District 25 This urban district serves as the center for trade and industry for the state. It includes one of the ten largest cities in the United States. The district maintains the largest school population in the state, nearly 30 percent of the entire state's students. Included in the district are two state supported colleges and eleven private institutions. The district ranks 25th in property valuation, 11th in income and 9th in sales.

District 31 An isolated district in a rather hilly area of the state. The terrain provides opportunities for summer and winter sports and the production of timber and forest products. A small amount of coal is still mined, but in greatly reduced quantities from previous years. Agriculture is very limited and industrial opportunities few. By all economic measures the district is at or near the bottom. The district ranks 31st in property value per pupil and 32nd in personal income.

In order to compare alternate models, assumptions were made that the total revenue available from all sources in each model was the same even though the proportion from state and local sources was different. It was also assumed that all districts levied the legal limit of taxes permitted by the state, except in the model that provides for state incentive grants for extra local effort.

FINANCE MODELS FOR THE PROTOTYPE STATE

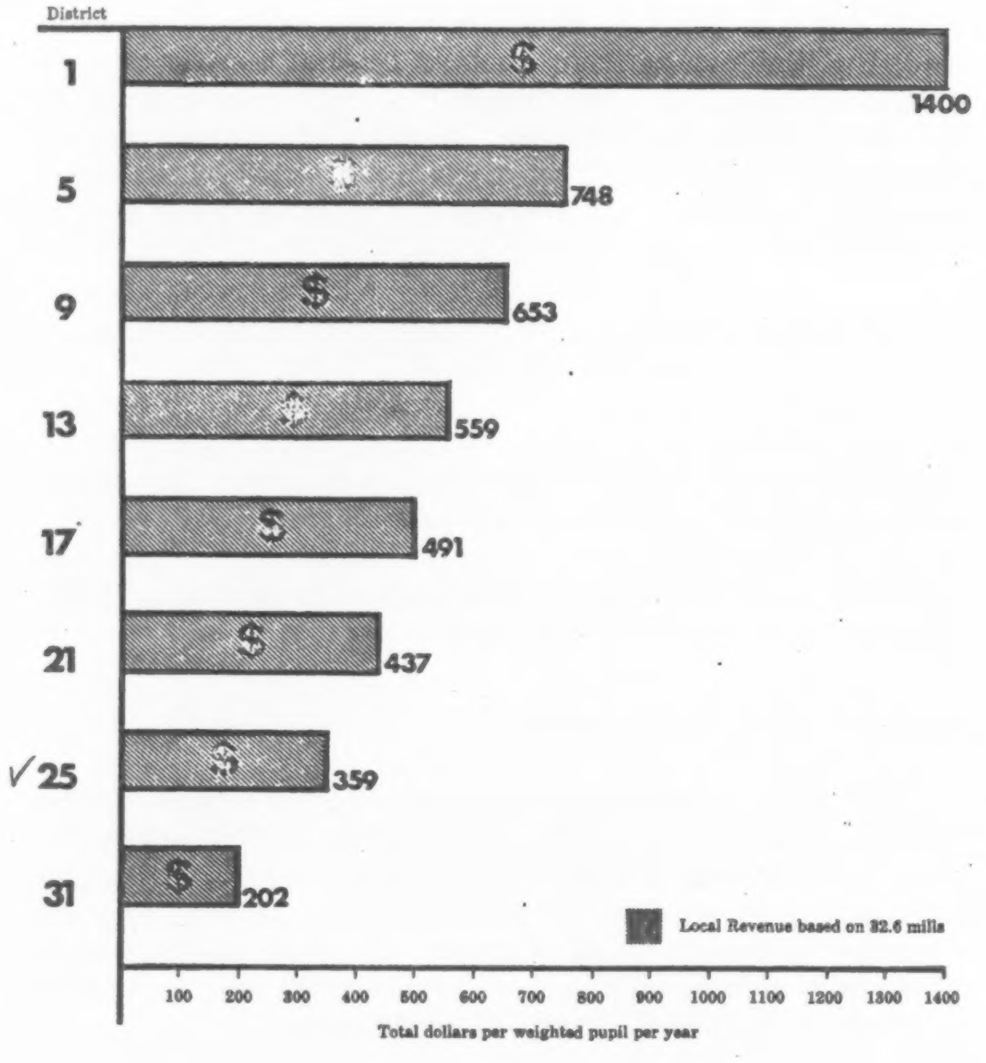
Different models may be designed by altering the percent of state and local revenue derived from various sources and adjusting the allocation of funds within the state. By examining each model it is possible to determine the degree of equity in the state's school finance program in each alternative. The following seven illustrations demonstrate the fiscal impact different financing methods have upon school districts.

Complete Local Support Model

This model illustrates the extreme inequity created among districts if schools are totally supported by local revenues. Because local revenue is based largely on property tax valuation the availability of revenue will vary widely according to the comparative wealth of the district. If school revenue were based on a millage such as 32.6 levied on the equalized value of property, the model on page 44 would appear.

It becomes obvious that school revenue based solely on the tax valuation of the local district will provide unequal school financing and thus unequal educational opportunity. A wealthy district, such as District 1, may have several times more money per pupil than the poorer districts (numbers 25 and 31).

Dollars in these models are expressed in terms of weighted pupils in order to provide for variations among the districts in the concentration of high cost pupils. The weighted pupil unit is a more accurate measure of educational need than unweighted pupils because it provides for necessary cost differentials. Revenue for pupil transportation has been excluded

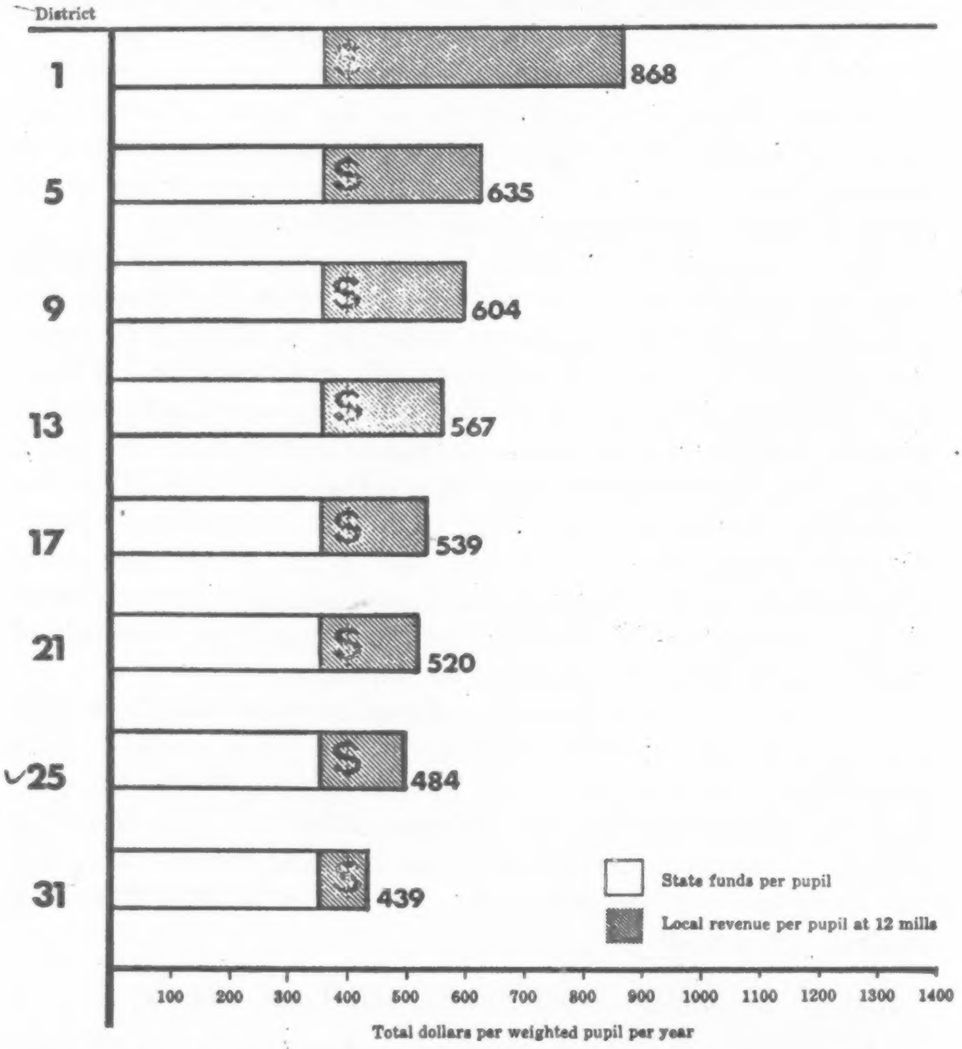


from these charts in order that the educational needs of all districts could be expressed on a comparable basis.

Flat Grant Model

This model provides for a basic state grant to each district based on the number of students without taking into account variations among the districts in local taxpaying ability. Local revenue is provided on the basis of an established millage rate on local tax valuation, such as 12 mills. The actual dollar amount of local revenue will, of course, vary according to the wealth of the property and other local tax sources. This is one of the most primitive methods of apportioning state school funds (especially if apportioned on an unweighted pupil basis), although still used in many states for allocating a portion of their school funds.

If state funds are allocated on the basis of $352 per weighted pupil in the prototype state, under the flat grant model the district school revenue would appear as follows:



In this flat grant model, the wealthier districts, numbers 1, 5 and 9, with high taxpaying ability have substantially more resources for schools when the flat state grant is combined with the local revenue raised from the high property tax base.

The poorer districts, with lower tax valuations, such as numbers 25 and 31, have a very low tax valuation base and consequently revenue based on the same 12 mills is not great. In these instances the total funds per child from both state grants and local revenue are nearly half those of the most wealthy district.

Under the flat grant method of school financing, equalization of educational opportunity for all students in the state is virtually impossible, although the higher the percentage of state financing the greater the level of equalization.

The flat grant model presented in this chart assumes that the state funds are distributed in an equal amount per weighted pupil. If flat grant state funds are distributed in an equal amount per unweighted pupil, the inequalities would be considerably greater than those shown in this chart.

The number of weighted pupils in a state is always greater than the number of unweighted pupils. For example, in the prototype state, the number of weighted pupils is 1.37 times the number of pupils in average daily membership. Therefore, a state appropriation of $325 per weighted pupil is equivalent to a state appropriation of approximately $482 per pupil in average daily membership. Since the charts for all of the models illustrated are expressed in dollars for weighted pupil, one can approximate the dollars per pupil in average daily membership by multiplying the amounts shown in the charts by 1.37 except that the ratio of weighted pupils to unweighted pupils varies somewhat among the districts.

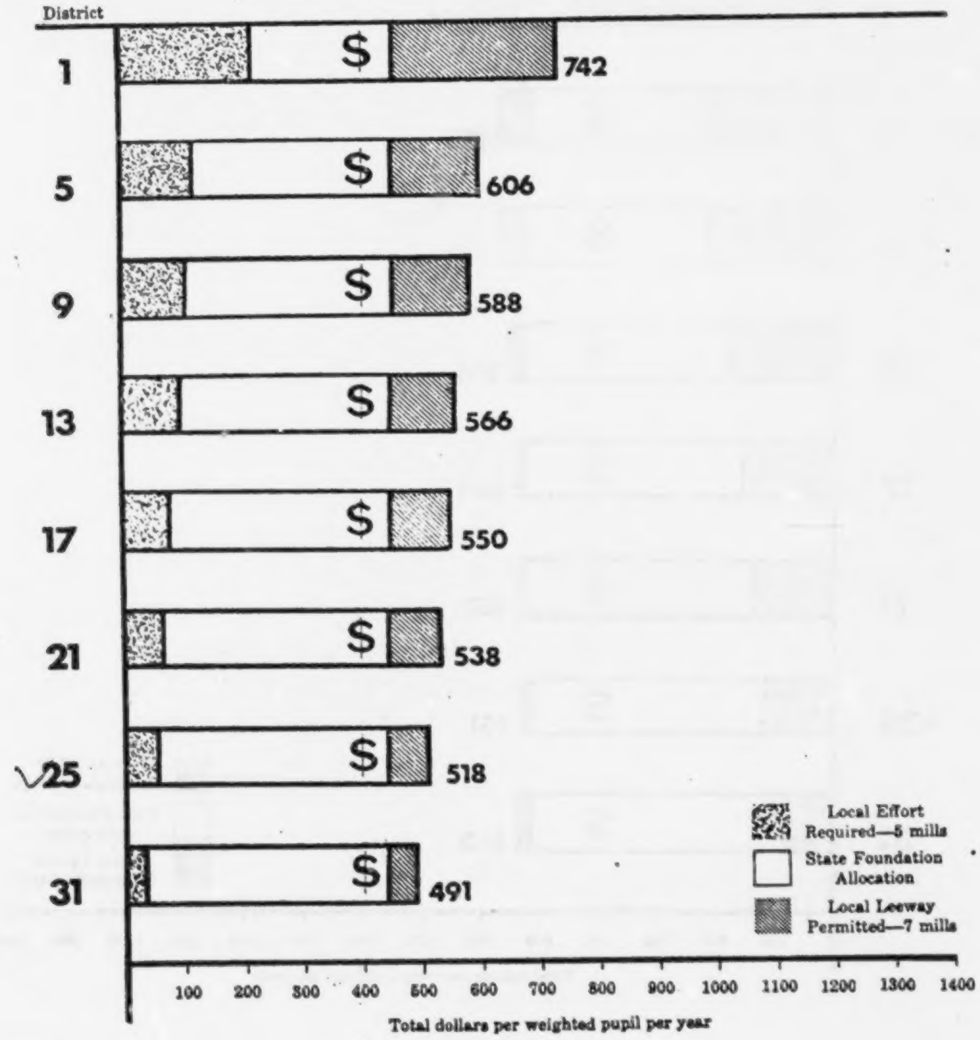
The level of school financing shown in these models is very low and is not intended to suggest the level needed. The amounts of funds shown in the models are purely for the purpose of demonstrating the relative effect of the alternate models. The relative impact of the different models on equalization would be the same regardless of the level of financing used in the models.

Equalization Model—With Substantial Local Leeway

Various forms of equalization models are designed after the most commonly used method for apportioning state school funds—the Strayer-Haig formula. Under this formula, the cost of the foundation program which the legislature desires to guarantee for each district is computed and from that cost is deducted the amount of funds which each district can raise locally through a minimum required local tax effort and the difference is allocated to the district from state funds. As the name implies, the model is intended to secure equalization of school funds among the districts in the state through the allocation of state funds.

There are many variations of this plan that have greatly different consequences. The critical element of the equalization models is the degree of required local effort and the amount of local leeway permitted. In the model below, less equalization occurs when substantial local leeway is allowed.

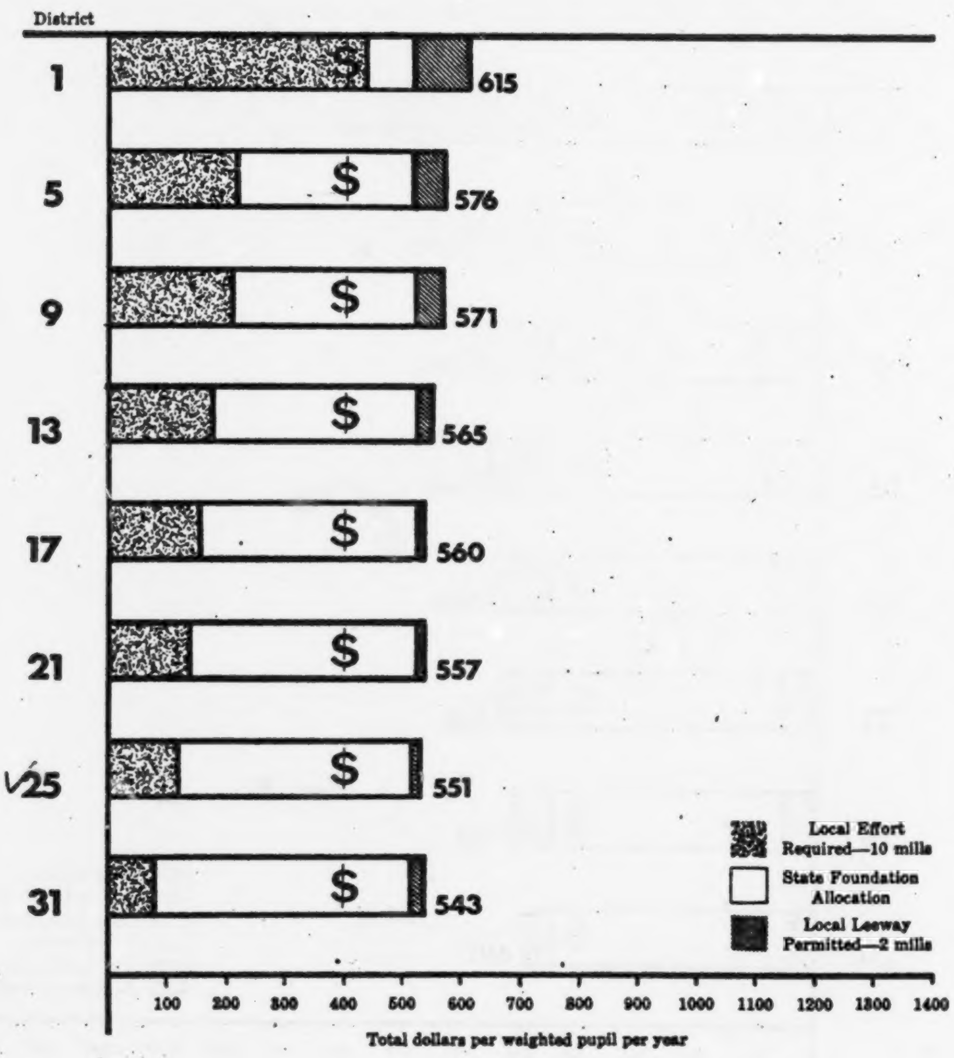
This model demonstrates the result when 5 mills of local effort is required and 7 mills of local leeway permitted.



Although this model approaches equalization, it permits considerable inequity between wealthy and poor districts. It should be noted that a high degree of equalization occurs when the state foundation allocation is added to the required local effort of 5 mills; however, the large leeway of 7 mills tends to disequalize the distribution of school funds among the districts.

Equalization Model—With Minimal Local Leeway

This model illustrates how greater equalization will occur

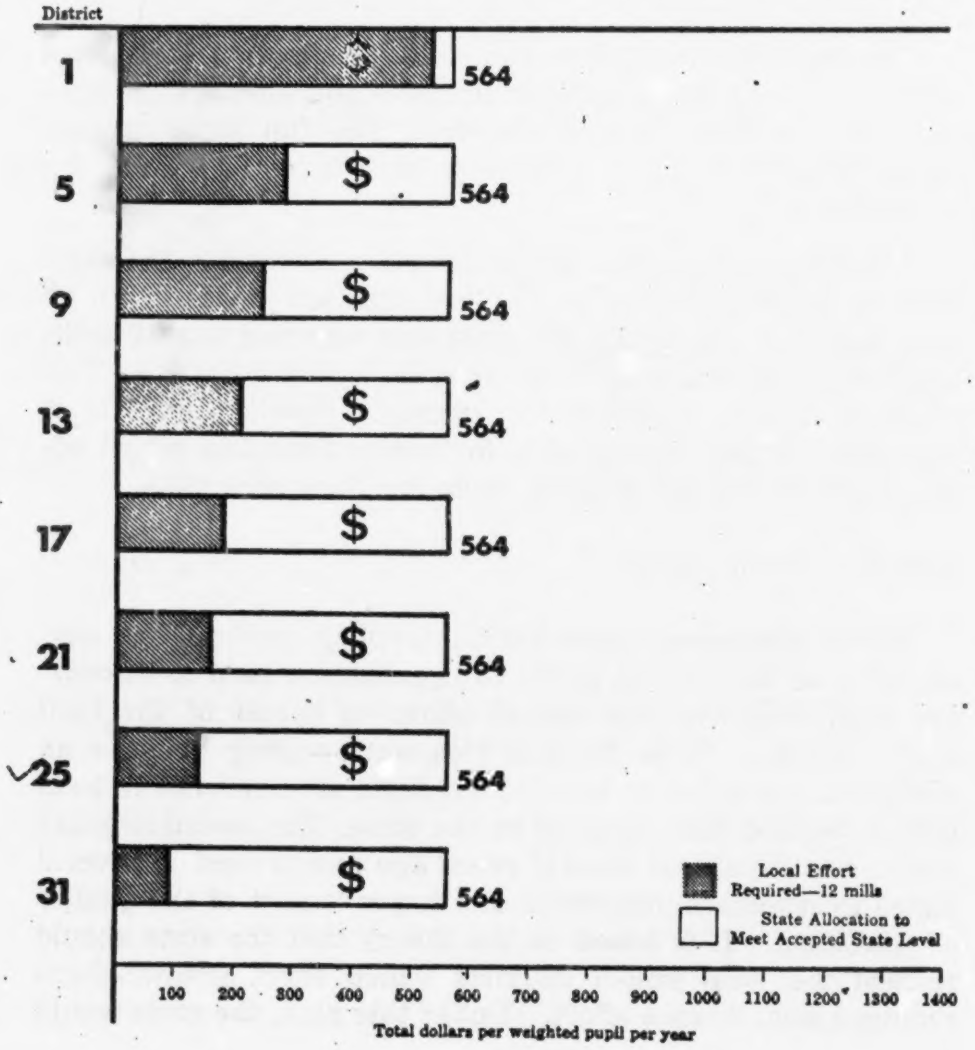


as the amount of required local effort is increased and the amount of local leeway is decreased. In the model 10 mills are required as the level of local effort and the state foundation allocation is made on that basis. Local leeway of 2 mills is permitted.

The small amount of local leeway tends to make the equalization formula more effective in achieving an equality among the districts.

Equalization Model—With No Local Leeway

This plan provides for complete equalization among dis-



tricts in the prototype state by requiring a uniform local effort (i.e., 12 mills) without provisions for local leeway. The Strayer-Haig formula is used as the basis for state allocations. The local effort plus the state allocations brings each district up to the accepted state level of school finance, thereby creating full equalization.

Under the complete equalization plan, the wealthier districts (with greater taxpaying ability) will receive smaller state allocations in order to reach the accepted foundation of school financing for each pupil. This model assures all youngsters in the state equal resources for education.

Full State Support Model

Another plan to achieve complete equalization is to have the state assume full responsibility for school support and allocate funds equally to each district. The full state support model would presumably eliminate local taxes as a basis for school financing.

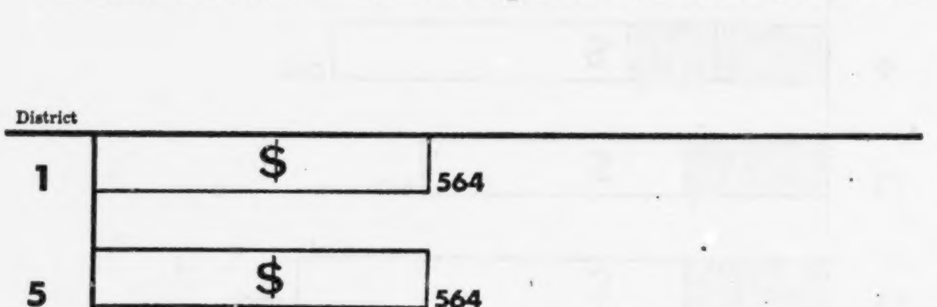
The full state support model provides essentially the same level of school financing as the "equalization model—with no local leeway." In effect the state has assumed the 12 mills local effort and abolished local taxes for school purposes. This plan, of course, provides for complete equalization. It is equivalent to the Hawaii plan for school financing which operates under a single school system for the entire state.

Incentive Grant Model

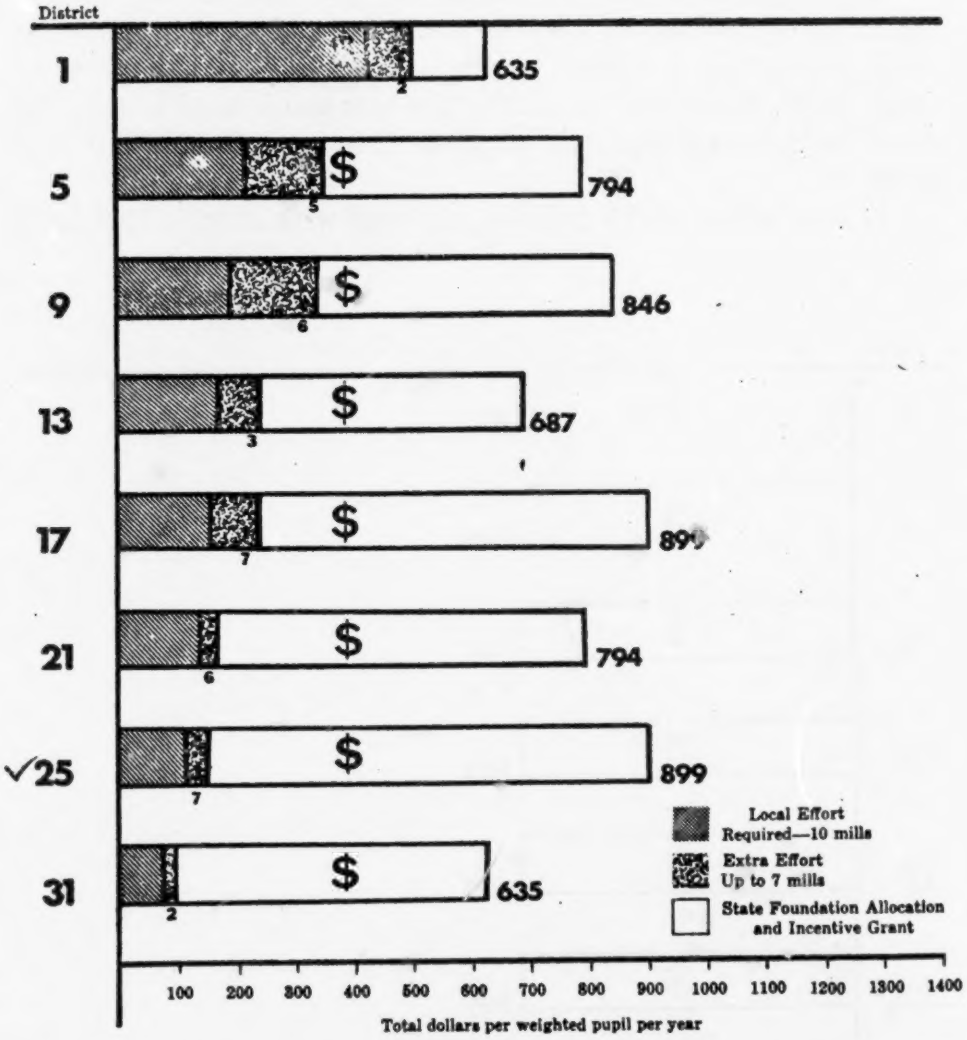
Many educational and political policy makers are concerned that the various forms of equalization tend to discourage local initiative and special effort on behalf of the local school system. Some communities seem willing to make an additional tax effort to provide a margin of excellence in local schools beyond that required by the state. The incentive grant model was developed several years ago and is used in several states to stimulate innovation and improvement of the quality of education. It is based on the theory that the state should reward the local school districts which exert greater-than-required local finance effort. Under this plan, the state would increase the level of the state foundation allocation when the local tax funding effort was increased above the uniform level.

It is important to note that under this plan all students in the state, regardless of wealth, would have at least a minimum state foundation program at the same level. If the state increases the allocation to match the increased local effort, the effect is the establishment of a *variable level* foundation program.

If local effort of 10 mills is required with extra-effort local



leeway up to 7 mills permitted, and incentive grants added to the state foundation, the model would appear as follows:



The incentive grant is especially important to districts, such as 17 and 25, where the full 7 mills extra local effort was made. In both of these moderately poor districts the extra local effort was rewarded by very substantial grants from the state. This model encourages both the state and local districts to provide a higher level of school financing than the other models, although the benefits of this extra effort are spread unequally over the state.

The incentive grant model is desirable from the standpoint of encouraging local effort, initiative and innovation in some districts, although it has a number of undesirable side effects. Primarily, it tends to disequalize educational opportunity within a state and it makes the quality of a child's education dependent upon the willingness of the people of his district to vote extra local property taxes. The plan also tends to increase local taxes and expands state allocations proportionate to the expansion of local taxes. Many believe that a system which allocates funds on the basis of "the more you spend locally, the more you get from the state" is irrational as a basis for allocation of the nation's resources.

Other Variables Influence the Models

In comparing these seven alternate models and others which can be designed, consideration should be given to a variety of other factors that influence educational costs.

These models illustrate possible ways in which state and local governments might approach the task of securing revenue and allocating it to support school districts. It is obviously impossible to cover in this limited presentation of models all possible variables that could possibly change the allocations of funds and the revenue effort required by the state and local districts.

These factors include:

> As an alternate, the adjusted instructional unit technique could be used to account for differences in types of districts, special programs required and the like.
>
> Costs for transportation of pupils may vary greatly among districts according to geographical distribution of pupils or desire to use busing to achieve racial balance.
>
> Cost of living differences among various districts may be substantial and require adjustments among districts.
>
> The allocations of federal funds may affect other finance allocations by substitution for or supplementation of state or local funds.
>
> Differences among districts for food services and other special facilities to meet local needs may require financial adjustment.

Capital outlay needs may differ greatly among school districts and add to the task of obtaining equalization.

Equal access to quality teachers may require supplements to salaries or other incentives for personnel in remote rural or urban ghetto areas.

These and other factors must be considered by school finance designers and state policy makers in creating the model to meet fully and equitably the needs of each state.

What Guidelines are Suggested by These Models?

These school finance models, and a dozen others created by the NEFP researchers, offer the states' political and educational leaders a number of fundamental guidelines for establishing educational equality among school districts. The following principles are applicable to nearly all states and school districts:

1. **State funds—distributed by any model examined—provide for some financial equalization, but some finance models provide more equalization than others.**
2. **The flat grant model provides the least financial equalization for a given amount of state aid of any of the state-local models because it does not take into account the variations in wealth of the district.**
3. **A flat grant model which takes into account some of the cost variations per pupil (i.e., weighting pupils, even though it ignores variations in wealth, provides more equalization than the flat grant model which fails to provide for any cost differentials and variations in wealth.**
4. **The equalization models which take into account cost differentials of various programs and variations in school district wealth are the most efficient methods for equalizing financial resources in states using state-local revenue allocations.**

5 In equalization models, the greater the local tax leeway the less the equalization.

6 Complete equalization is attained only under a plan of full state funding or an equalization plan which includes all local school taxes in the required local effort for the state foundation program.

7 The higher the percentage of school revenue provided by the state, the greater the equalization of financial resources among districts.

8 The higher the percentage of school revenue provided from local revenue, the greater the possibility for unequal financial resources and unequal educational opportunity in the state. A complete local support model provides no equalization among districts whatsoever.

9 The higher the percent of state funds provided, in relation to local revenue, the greater the progressivity of the tax structure for school support. State tax sources are generally more progressive than local tax sources.

10 The higher the percent of federal funds provided in relation to state and local revenues, the greater the progressivity of the school tax structure because federal taxes are generally more progressive than state and local taxes.

WHICH MODEL IS BEST?

After analyzing these models and the many variations of them, what plan would be considered *best* for a state or school district?

> ***The answer depends entirely on the values and goals of those making decisions on school finance in the state and districts.***

IF YOU BELIEVE . . .	YOU WILL UNDOUBTEDLY PREFER . . .
1 That educational opportunites should be substantially equal, but that districts should be left with some tax leeway for enrichment of the foundation program . . .	An equalization model with tax leeway provisions for the district. The more equalization desired, the less leeway will be provided.
2 That educational opportunities should be completely equalized financially . . .	A complete state support program.
3 That all children, regardless of variations in their ability, talent, physical condition, cultural background or other variables, have a right to an education to meet their individual needs . . .	A model which will incorporate the necessary cost differentials to meet the needs of all pupils.
4 That educational opportunity should be substantially equalized *among* the states . . .	A model which provides a substantial percent of federal support apportioned in a manner to equalize opportunities among states.
5 That taxes for the support of public schools should be relatively progressive rather than regressive . . .	A model which provides a high percentage of revenue from state and federal sources.
6 That public education should tend to remove the barriers between caste and class and provide social mobility . . .	A model which does not promote the segregation of pupils by wealth, race, religion or social class.

	IF YOU BELIEVE . . .	YOU WILL UNDOUBTEDLY PREFER . . .
7	That all essential functions of state and local government should be equitably financed in relation to each other . . .	A model which does not encourage state and federal funds to be allocated to local governments on the basis of "the more you spend locally, the more you get from the central government."
8	That the educational output per dollar should be maximized . . .	A model which promotes efficient district organization and efficient schools within districts.
9	That a "federal" system of government is most desirable — providing clearly responsible local, state and national authority . . .	A model which will enable public educational decisions to be made at the lowest level of government where they can be made efficiently. Thus, decisions should not be made at the federal level if they can efficiently be made at the state level; states should not make decisions when they can be made efficiently at the local level.
10	That education for all is essential to the successful operation of a democratic form of government in a free enterprise system and that it is essential to the economic growth of the nation and to the fulfillment of the legitimate aspirations of all persons . . .	A model of education sufficiently financed to meet each state's and each individual's educational needs adequately to enable each person to attain his highest level of potential.

IX

What Lies Ahead?

The pressing needs of the schools have met steadily increasing resistance upon the part of the people who foot the bills, the taxpayers. Inflation, heavy federal expenditures for an unpopular war, a high rate of unemployment, an unstable economy and the rapidly rising costs of practically all state and local governments (including expenditures for education) have undoubtedly all contributed to the taxpayer revolt that is not confined to taxes for education.

The Vietnamese War is being brought to a close and steps have recently been taken to halt inflation, stabilize the economy and reduce unemployment. It is hoped that these measures will remedy the major causes of the taxpayer revolt, not only to financing education, but also to financing other functions of government that are essential to the welfare of the nation.

The problem of educational equality also will be a major one in what remains of the 1970's and no doubt in the decades beyond. The California State Supreme Court decision, which held that the unequal financing of public schools through the use of local property taxes discriminates against the poor, and the filing of similar suits in other states insures a struggle to restructure school financing in the days ahead. The road to fiscal equality in education may be more tortuous than the one that leads toward racial integration in education.

If the legislatures meet the tax problem forthrightly and are able to institute equitable taxes for the schools, they will have taken an important step toward restoring public support of education.

What more should we expect during the Seventies?

Economists are confidently predicting that the remainder of the decade will see a steady growth in population and that it will be more affluent and better informed than ever before. They predict individuals will earn more, spend more and save more. If there is validity in their optimistic expectations, then we must anticipate and prepare for continued growth in education.

Americans can properly expect expansions in the field of early childhood education and programs for exceptional children. Vocational education and adult education at all levels will need to be expanded to meet the needs of a growing and more demanding nation.

If we are to have equality of education, which ought to be a Number One goal in all states, it will be necessary to move ahead on all fronts. It calls for combined and concentrated effort on the part of all three levels of government—federal, state and local. But the first and most important step is to set up long range, equitable financing for education. A hodgepodge, patchwork system of property taxes, varying from district to district and state to state will no longer meet the requirements of American education *nor will the taxpayers tolerate it.*

If the American dream of quality education for all the nation's children is to me met, then the policy makers and concerned citizens, which should include everyone, must ask themselves some searching questions:

- What educational programs and services will be funded in the states' school finance plans and for whom will these programs be provided?
- Will state funds be apportioned on the flat grant basis which ignores differences in the wealth of local school districts or on the equalization basis which provides more state funds per unit of educational need to poorer districts than to richer districts?
- Will necessary variations in unit costs of different educational programs and services be recognized or ignored in allocating state funds on either the flat grant or equalization basis?
- What proportion of school revenue will be provided by the state and what proportion from local sources and what proportion by the federal government?

- How progressive or regressive will be the state's tax structure?
- To what extent will the state provide for financial equalization of educational opportunity among school districts of the state?
- To what extent does the federal government have the responsibility to eliminate educational inequalities among the states?
- What are the financial needs of the public schools and how nearly can these needs be met taking into consideration needs for other governmental services and the financial ability of the state to provide them?
- Is America willing to take the bold steps necessary to make the dream of equal educational opportunity for all truly a reality?

THE CORRECT ANSWERS MUST BE FOUND

BY "WE THE PEOPLE"!

We the people
United St

Related Correspondence to Future Direction for School Financing

December 22, 1971.

Dr. Roe L. Johns,
Project Director,
National Education Finance Project,
1212 Southwest Fifth Avenue, Gainesville, Florida 32601.

Dear Dr. Johns: The NEFP has made a major contribution to the analysis and understanding of problems related to the financing of the nation's public schools through the issuance of *Future Directions for School Financing.* Both this pamphlet and the Project's five volume comprehensive study of finance inequities in funding elementary and secondary education in the United States should serve as a useful guide to legislators, education administrators, and the public at-large.

Unfortunately, the five-volume study and the 61-page summary omit three important elements that bear heavily on policy choices for correcting school finance inequities now facing state legislators throughout the country.

First, the NEFP reports proceed under the implicit assumption that a dollar's worth of purchasing power buys the same amount of education in a central city school district as it does in a rural school district. This patently is not the case, and studies are urgently needed to document the exact extent of the reduced spending power of the central city school districts.

Secondly, except for an infrequent statement, NEFP largely ignores the important policy concept of "municipal overburden". That is, by virtue of the increasing demand for municipal services made upon central cities both by their residents and residents of adjoining municipalities, central city governments are currently taxing themselves beyond the point of diminishing returns. With businesses migrating from the cities to the suburbs in search of favorable tax benefits, it seems unjust and unwise to characterize central city school districts as being wealthy and then to follow NEFP's suggestion that they tax themselves at higher rates.

Third, although NEFP acknowledges the existence of *Serrano* v. *Priest* (the California Supreme Court decision which declared that inequities in that State's school finance system amounted to a violation of the United States Constitution), the various alternative school finance plans discussed in its summary report are not examined in the context of constitutional considerations. The critical question raised by the California court for constitutional inquiry was whether or not a state's school financing plan based per pupil expenditures on the taxable wealth of local school districts, thereby discriminating against poorer districts. Indeed, many of the financing alternatives considered in the NEFP report base school expenditures on unequalized local wealth and thus would be unconstitutional under a *Serrano*-type decree.

It would be unfortunate that if at this critical juncture, a publication that will be widely distributed and will unquestionably produce a great impact on state legislators did not provide adequate guidance as to the potential constitutional problems that might arise from the enactment of legislation which allowed school expenditures to be based on local wealth.

We urge the Project to include consideration of these subjects in an addendum to its report.

Very truly yours,

CARL HOLMAN,
President, National Urban Coalition.
DAVID SELDEN,
President, American Federation of Teachers, AFL–CIO.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

REPORT OF THE COMMISSIONER'S AD HOC GROUP ON SCHOOL FINANCE

EXPENDITURES

Over the past 10 years, expenditures for public elementary and secondary education have been increasing at a rate 43% higher than the increase registered for the economy as a whole. The 10 year annual growth rate of 9.7% for total school expenditures compares with a rate of 6.8% for GNP (both in current). The 1963–1968 growth rate in educational expenditures per capita is 2.75 times the rate of increase in personal income per capita. The 1969–70 increase of 10.4% in school expenditures was 4.3 percentage points higher than the 6.1% gain in GNP.

USOE has supplied tables comparing 16-year growth in educational expenditures per pupil to state and local revenue per capita. This shows a growing divergence in the ability of the revenue capacity to keep pace with expenditure increases (see p. 6). These overall national tables only understate the cost-revenue squeeze in particular districts—especially core cities.

The total cost of public elementary and secondary education has more than doubled in the past ten years, increasing from $15.6 billion in 1959–60 to $39.5 billion in 1969–70. Total elementary and secondary educational expenditures, including current expense, capital outlay, and interest, rose from $35.8 billion in 1968–69 to $39.5 billion in 1969–70 for an increase of 10.4%. During this same period the total current expenditure, the largest and most significant component of which is teachers' salaries, increased from $29.0 billion to $32.3 billion for an increase of 11.2% (Tables 1, 2, 3). An increase in enrollment in public elementary and secondary schools from 36.3 million to 45.7 million from 1960 to 1969 was a cause for part of the total increase in expenditures for public elementary and secondary education. A projected figure for 1975 indicates a further increase to 46.4 million.

TABLE 1.—TOTAL EXPENDITURES FOR PUBLIC ELEMENTARY AND SECONDARY SCHOOLS

School year (1)	Amount (in thousands) (2)	Percent increase over 1959–60 (3)	Percent increase over previous year (4)
1959–60	$15,613,255		
1960–61	[1] 16,807,934	7.7	7.7
1961–62	18,373,339	17.7	9.3
1962–63	[1] 19,735,070	26.4	7.4
1963–64	21,324,993	36.6	8.1
1964–65	[1] 23,029,742	47.5	8.0
1965–66	26,248,026	68.1	14.0
1966–67	[1] 28,352,330	81.6	8.0
1967–68	[1] 31,917,850	104.4	12.6
1968–69	[1] 35,782,262	129.2	12.1
1969–70	[1] 39,494,111	153.0	10.4

[1] NEA Research Division estimates.

Source: Figures for 1959–60 to 1965–66 from: U.S. Department of Health, Education, and Welfare, Office of Education. Digest of Educational Statistics, 1968. Washington, D.C.: Government Printing Office, 1968, p. 59.

Figures for 1966–67 forward from: National Education Association, Research Division. Estimates of School Statistics 1969–70. Research Report 1968–R15. Washington, D.C.: the Association, 1969, p. 19. "Financial Status of the Public Schools 1970," Committee on Educational Finance, National Education Association, Washington, D.C.

TABLE 2.—GROSS NATIONAL PRODUCT

School year (1)	GNP (in billions) (2)	Percent increase over 1959–60 (3)	Percent increase over previous year (4)
1959–60	$495.6		
1961–62	541.7	9.3	9.3
1963–64	610.6	23.2	12.7
1964–65	655.6	32.3	7.4
1965–66	718.5	45.0	9.9
1966–67	771.1	55.6	7.3
1967–68	827.6	67.0	7.3
1968–69	900.6	81.7	8.8
1969–70	[1] 955.3	92.8	[2] 6.1

[1] 2d quarter of 1970 estimated by NEA Research Division.

[2] Total expenditure for elementary and secondary public education increased by 10.4 percent.

Source: U.S. Department of Commerce, Office of Business Economics. Survey of Current Business 45:24–25, August 1965; 48:19, July 1968; 49:17, July 1969. Council of Economic Advisers. Economic Indicators, May 1970, p. 1. "Financial Status of the Public Schools, 1970," Committee on Educational Finance, National Education Association, Washington D.C.

TABLE 3.—CURRENT EXPENDITURES FOR PUBLIC ELEMENTARY AND SECONDARY SCHOOLS

School year	Current expenditures for public elementary and secondary day schools		
	Amount (in thousands)	Percent increase over 1959–60	Percent increase over previous year
(1)	(2)	(3)	(4)
1959–60	$12,329,389		
1961–62	14,729,270	19.5	12.0
1963–64	17,218,446	39.7	10.3
1965–66	21,053,280	70.8	13.5
1966–67	[1] 22,854,760	85.4	8.6
1967–68	[1] 25,769,474	109.0	12.8
1968–69	[1] 29,040,075	135.5	12.7
1969–70	[1] 32,280,936	161.8	[1] 11.2

[1] NEA Research Division estimates.

Sources:
Figures for 1959–60 through 1965–66 from: U.S. Department of Health, Education, and Welfare, Office of Education. Digest of Educational Statistics, 1969. Washington, D.C.: Government Printing Office, 1969, p. 54.
Figures for 1966–67 forward from: National Education Association, Research Division. Estimates of School Statistics, 1969–70. Research Report 1969–R15. Washington, D.C.: the Association, 1969, p. 20. Total Expenditure equals 10.4 percent; GNP equals 6.1 percent. "Financial Status of the Public Schools 1970," Committee on Educational Finance, National Education Association, Washington, D.C.

The reasons for this are several. One is that many households place a high value on education both as a good thing in itself and also as a means to help their children get ahead in a competitive world. *Another reason for its rising costs is that education has proven intractably to be a labor intensive activity.* The possibilities of substituting (possibly) cheap capital goods for dear labor in educational processes has turned out to be extremely limited, so far. Moreover, labor in education has become dear, first, as enrollment increases outran increases in numbers of newly trained teachers and, second, as teachers have succeeded in organizing themselves into powerful bargaining units. Table 4 presents the alarming picture of education expenditures outrunning its state and local revenue base. The trend will continue if the price of labor intensive inputs rises faster than gains in productivity. In the private sector firms are able to make labor more productive as the price rises on substitute capital for labor; in the public sector labor costs rise with little or no increase in productivity. Moreover, there is no incentive (profit or otherwise) in schools for this substitution.

Another factor causing educational expenditures to increase was the addition of instructional staff members in the public schools to drop the number of pupils enrolled per instructional staff member from 24.7 in 1959–60 to 20.5 in 1969–70. Although the large enrollment increases of the past will not confront us in the foreseeable future, the projected total number of births indicates that a slow increase in this total can be expected. The increase in the total number of births is expected because of an increased number of women in the child-bearing age group and in spite of a reduction in the birth rate within this group (Table 5).

Salaries of teachers have in the past, and will continue in the future, to be the most important component, in size and percent of annual increase, of the educational budget. It is difficult to ascertain the specific implications of teachers' salaries upon budgeting for education in the future. *Suffice it to say, however, that the increased organization, militancy and unionism of the teachers could easily lead us to predict that there will be increases in teachers' salaries in the future* and that they will in all likelihood still comprise as large a portion of the total educational budget as they do at the present time.* As Table 6 indicates, teacher salaries have risen much faster than personal income per capita or average earnings per employee.

TABLE 4.—PERCENT INCREASE OVER 1952 IN PER CAPITA AND PER PUPIL IN ADA AMOUNTS OF STATE AND LOCAL REVENUE, BY PURPOSE AND LEVEL OF GOVERNMENT, 1952–68

Fiscal year	Percent increase in amount per capita						Percent increase in amount per pupil in ADA					
	State and local revenue for all purposes			State and local revenue for public elementary school education			State and local revenue for all purposes			State and local revenue for public elementary school education		
	Total State and local	State	Local	Total State and local	State	Local	Total State and local	State	Local	Total State and local	State	Local
1968	176.0	187.0	164.8	265.0	287.5	250.0	101.1	108.8	93.2	168.0	184.0	157.5
1967	153.0	158.7	147.3									
1966	136.6	140.2	133.0	200.0	218.8	187.5	76.3	78.2	74.1	124.4	138.7	115.0
1965	117.5	117.4	117.6									
1964	105.5	104.3	106.6	157.5	162.5	154.2	56.2	54.9	57.5	97.4	103.8	93.1
1963	91.8	90.2	93.4									
1962	82.5	77.2	87.9	127.5	131.2	125.0	45.3	40.9	49.8	81.6	84.9	79.4
1961	72.7	66.3	79.1									
1960	62.8	58.7	67.0	97.5	100.0	95.8	34.2	30.4	38.1	63.2	67.9	60.0
1959	48.1	41.3	54.9									
1958	40.4	34.8	46.2	70.0	75.0	66.7	22.2	17.0	27.3	47.7	51.9	45.0
1957	35.5	32.6	38.5									
1956	25.7	22.8	28.6	37.5	43.8	33.3	13.1	10.7	15.5	25.2	30.2	21.9
1955	15.3	10.9	19.8									
1954	10.4	7.6	13.2	17.5	12.5	20.8	3.4	1.0	5.8	10.2	8.5	11.2
1953	5.5	4.3	6.6									
1952												

Source: USOE–NCES.

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*Some observers point to a moderating of teacher salary increases recently because of the teacher surplus and the threat of teacher layoff.

TABLE 5.—ESTIMATES OF BIRTHS FOR 1946-69 AND PROJECTIONS TO 1975

[In thousands]

Year ending June 30 (1)	Estimated number (2)	Series D projection (3)	Year ending June 30 (1)	Estimated number (2)	Series D projection (3)
1946	2,873		1961	4,350 (High)	
1947	3,948		1962	4,259	
1948	3,658		1963	4,185	
1949	3,660		1964	4,119	
1950	3,638		1965	3,940	
1951	3,771		1966	3,716	
1952	3,859		1967	3,608	
1953	3,951		1968	3,520 (Low)	
1954	4,045		1969	3,567	3,555
1955	4,119		1970		3,569
1956	4,167		1971		3,592
1957	4,312		1972		3,648
1958	4,313		1973		3,717
1959	4,298		1974		3,799
1960	4,270		1975		3,893

Source: U.S. Department of Commerce, Bureau of the Census. "Estimates of the Population of the United States and Components of Change, 1940-70," series P-25, No. 442. Washington, D.C.: Government Printing Office, Mar. 20, 1970. p. 9.

U.S. Department of Commerce, Bureau of the Census, "Projections of the Population of the United States by Age, Sex, and Color to 1990, with Extentions of Population by Age and Sex to 2015," series P-25, No. 381. Washington, D.C., Government Printing Office, Dec. 18, 1967, pp. 51 and 52. "Financial Status of the Public Schools 1970," Committee on Educational Finance, National Education Association, Washington, D.C.

At this point we present some information relating to developments in the private sector of elementary and secondary education because they directly affect enrollments and expenditures of the public sector. Enrollment in private elementary and secondary schools has decreased from 5.9 million in 1960 to 5.7 million in 1969, with a projected enrollment of 5.4 million in 1975 (Table 7). Private school enrollments comprised 10.9 percent of the total in elementary and secondary schools in 1950 and rose to a high of 14.9 percent in 1959 (Table 8). Since that time there has been a rather consistent decrease so that preliminary figures indicated that in 1969 only 11.1 percent of the total enrollment in the elementary and secondary schools were enrolled in private schools. Every indication is that the total enrollment in the private schools and their percentage of total enrollment in elementary and secondary schools will decrease. *The per pupil costs in the Catholic schools, which comprise the largest segment of private education, are increasing more rapidly than those in public education.* This is caused by a number of factors and is in spite of the fact that the total cost per pupil in Catholic elementary and secondary schools is typically less than half that of the local public school. The major reason for the increased costs of Catholic education is the replacement by lay teachers, who are prone to request the going market salary of the public school teacher, for the diminishing number of religious teachers whose stipend for teaching service has historically been very small. The National Catholic Education Association has reported a 10 percent enrollment decline since 1967. They also report a decline in the number of schools of 7 percent during the same period. At the same time there was a decrease of religious teachers in their schools of 12 percent and an increase of 16.6 percent in their operating costs to a total cost of $1.4 billion in 1969-70. As the enrollment and percent of total enrollment decreases in the private schools, the public schools will have to absorb the additional students and their educational program costs.

TABLE 6.—PERCENT INCREASE OVER 1952 IN PERSONAL INCOME PER CAPITA, AVERAGE EARNINGS PER EMPLOYEE AVERAGE PUBLIC SCHOOL CLASSROOM TEACHER SALARY, AND INSTRUCTIONAL STAFF SALARY, AVERAGE PUBLIC SCHOOL EXPENDITURES PER PUPIL IN ADA, AND CONSUMER PRICE INDEX: 1952–68

	Percent increase in income, average earnings, teacher salary, instructional staff salary, expenditure per public school pupil, and Consumer Price Index						
					Expenditure per public school pupil in ADA		
Fiscal year	Personal income per capita	Average earnings per employee	Average classroom teacher	Average instructional staff salary	Total expenditure	Expenditure only (current)	Consumer Price Index
1968	94.7	94.1	123.5	128.6	151.1	169.7	29.4
1967	81.5		105.7	114.8			25.2
1966	69.7	75.8	95.3	101.0	108.6	120.1	21.5
1965	58.2		86.5	87.4			18.9
1964	48.9	61.8	80.5	80.9	78.6	88.5	17.4
1963	42.5		72.6	71.6			15.7
1962	36.9	48.4	66.1	65.2	65.8	71.7	14.4
1961	32.4		58.8	57.9			13.2
1960	29.3	39.5	50.4	50.0	50.8	53.7	11.8
1959	24.9		44.4	43.2			10.2
1958	21.5	28.8	37.6	36.3	43.5	39.8	8.7
1957	18.8		27.6	26.1			5.2
1956	13.8	18.7	22.1	20.5	24.0	20.5	2.3
1955	8.2		14.9	14.5			1.9
1954	6.0	9.3	8.6	10.9	12.1	8.6	2.3
1953	4.5		2.5	3.0			1.4
1952							

TABLE 7.—INCREASES AND PROJECTIONS—FALL ENROLLMENT

[In millions]

Level	1960	1969	Projections 1975	Percent increase 1960 to 1969	Percent increase 1969 to 1975
Public elementary and secondary	36.3	45.7	46.4	25.9	3.9
Private elementary and secondary	5.9	5.7	5.4	−3.4	−5.3
Public higher education	2.3	5.6	7.8	143.5	39.3
Private higher education	1.5	2.1	2.4	40.0	14.3
Total	46.0	59.1	62.0	28.5	4.9

Source: U.S. Department of Health, Education, and Welfare, Office of Education, "Projections of Educational Statistics to 1938–69," 196[illegible] edition, Washington, D.C.: Government Printing Office, 1970, table 2 (in process).

Financial Status of the Public Schools 1970, Committee on Education Finance, National Education Association, Washington, D.C.

TABLE 8.—PRIVATE SCHOOL ENROLLMENTS AS PERCENT OF TOTAL PUBLIC AND PRIVATE ENROLLMENTS

Fall of year (1)	K-8 (2)	9-12 (3)	K-1^2 (4)	Fall of year (1)	K-8 (2)	9-12 (3)	K-12 (4)
1950	11.8	8.1	10.9	1960	15.2	10.1	14.0
1951	11.7	9.0	11.0	1961	14.7	10.4	13.7
1952	11.9	9.3	11.3	1962	14.9	9.4	13.5
1953	12.6	9.2	11.7	1963	15.3	10.1	13.9
1954	12.7	8.8	11.8	1964	15.6	11.0	14.6
1955	13.4	9.8	12.6	1965	15.3	11.2	14.2
1956	13.9	10.2	13.1	1966	14.5	10.3	13.4
1957	15.9	10.0	14.3	1967	14.1	9.4	12.8
1958	15.9	10.5	14.6	1968	12.9	9.6	12.0
1959	16.1	10.9	14.9	1969 (preliminary)	12.3	7.9	11.1

Source: Calculated from reports of the fall enrollment surveys: U.S. Department of Commerce, Bureau of the Census. Current Population Reports, Population Characteristics, series P-20, Numbers 34, 40, 45, 52, 54, 66, 74, 80, 93, 101, 110, 117, 126, 129, 148, 161, 162, 167, 190, and 199.

Financial Status of the Public Schools 1970, Committee on Educational Finance, National Education Association, Washington, D.C.

REVENUE

There had been very little change in the shares of the three levels of government, local, state, federal, in support of public elementary and secondary education up to 1965–66 and very little change since the enactment of ESEA. The additional funds provided for public elementary and secondary education caused by the enactment of ESEA in 1965 more than doubled the federal share, rising from 3.8 percent to 7.9 percent in 1965–66. The federal share remained at about the same figure for the next two years and then has declined slightly in the last two years. *The state share has increased slightly, from 39.1 percent to 40.8 percent, during the past ten years.* During the same period, the federal share has seen an increase from 4.4 percent in 1959–60 to a high of 8.0 percent in 1967–68 and then a decline to 6.7 percent in 1969–70. Revenue from local sources, as a share of total expenditures for public elementary and secondary schools, has been steadily declining from 56.5 percent in 1959–60 to the 52.5 percent level of 1969–79 (Table 9). One should hasten to add that all three levels of government added substantially to their annual financial support of the schools during the recent ten year period. The annual federal revenue share rose an estimated $1.9 million; state revenue by $9.9 billion and local revenue by $11.7 billion (Table 10). The total increases during the decade are accounted for by the federal 8.1 percent share, the state 42.0 share and the local 49.9 present share (Table 11).

TABLE 9.—PERCENT OF REVENUE RECEIVED FROM FEDERAL, STATE, AND LOCAL SOURCES FOR PUBLIC ELEMENTARY AND SECONDARY SCHOOLS

School year	Federal sources	State sources	Local sources
1959-60	4.4	39.1	56.5
1961-62	4.3	38.7	56.9
1963-64	4.4	39.3	56.4
1965-66	7.9	39.1	53.0
1966-67 [1]	7.9	39.1	53.0
1967-68 [1]	8.0	39.3	52.7
1968-69 [1]	7.4	40.0	52.6
1969-70	6.7	40.8	52.5

[1] NEA Research Division estimates.

Source: Financial Status of the Public Schools 1970, Committee on Educational Finance, National Education Association, Washington, D.C.

TABLE 10.—REVENUES FOR PUBLIC ELEMENTARY AND SECONDARY SCHOOLS

[In thousands]

School year (1)	Total (2)	Federal (3)	State (4)	Local (5)
1959-60	$14,746,618	$651,639	$5,768,047	$8,326,932
1961-62	17,527,707	760,975	6,789,190	9,977,542
1963-64	20,544,182	896,956	8,078,014	11,569,213
1965-66	25,356,858	[1] 1,996,954	9,920,219	13,439,686
1966-67 [2]	27,256,043	2,162,892	10,661,582	14,431,569
1967-68 [2]	31,092,400	2,472,464	12,231,954	16,387,982
1968-69 [2]	34,756,006	2,570,704	13,866,782	18,318,520
1969-70 [2]	38,246,618	2,549,149	15,634,396	20,063,073
Increase, 1959-60 to 1969-70:				
Amount	23,500,000	1,897,510	9,866,349	11,736,141
Percent	159.4	191.2	171.1	140.9
Annual rate	10.0	11.3	10.5	9.2

[1] Enactment of ESEA.

[2] NEA Research Division estimates. Estimates of Federal revenue may be lower than those which will be published later by the U.S. Office of Education because of partial omission of money value of food distribution for the school lunch program.

Source: U.S. Department of Health, Education, and Welfare, Office of Education "Statistics of State School Systems, 1965-66," Washington, D.C.: Government Printing Office, 1968, p. 11.

National Education Association Research Division, "Estimates of School Statistics, 1966-67, 1968-69, and 1969-70," Research Reports 1966-R20, 1968-R16, and 1969-R15. Washington, D.C.: the association, 1966, 1968, and 1969.

Financial Status of the Public Schools 1970, Committee on Educational Finance, National Education Association, Washington, D.C.

TABLE 11.—NEW STATE-LOCAL REVENUE

[Dollars in thousands]

School year (1)	Annual increase: New State revenue (2)	Annual increase: New local revenue (3)	Ratio of new State revenue to new local revenercent)d)ue (4)
1959–60 to 1961–62 [1]	$510, 571	$825, 305	61. 9
1961–62 to 1963–64 [1]	644, 412	795, 835	81. 0
1963–64 to 1965–66 [1]	921, 102	935, 236	98. 5
1965–66 to 1966–67	741, 363	991, 883	74. 7
1966–67 to 1967–68	1, 570, 372	1, 956, 413	80. 3
1967–68 to 1968–69	1, 634, 828	1, 930, 538	84. 7
1968–69 to 1969–70	1, 767, 614	1, 744, 553	[2] 101. 3

[1] Average of 2 years.

[2] 1st year in which new State revenue exceeded new local revenue.

Source: Derived from table 24.
Financial Status of the Public Schools 1970, Committee on Educational Finance, National Education Association, Washington'D. C.

Quite clearly the local school district has had to assume the major responsibility for raising taxes to finance the increasing costs of public elementary and secondary education. The property tax continues to be the primary and, in most instances, nearly sole revenue source over which the local school district has any discretionary authority. The share of distribution of property taxes for local school districts has risen from 32.9 percent in 1942 to 50.2 percent in 1969. In the process of securing a major portion of revenue raised by the local property tax, the school district has displaced all other local governments as the chief claimant for local property tax dollars (Table 12).

Part of the cost-revenue squeeze presented earlier is caused by the relative in elasticity of the property tax. Property tax expansion depends in large part on the state of the housing market and the lag in assessments. Recently (1968–1970) the housing market has been slow in terms of new construction and remodeling. Consequently, Richard Netzer estimates tax elasticities for 1968–70 as follows:

	Amount
Property tax (or less in housing recessions)	1. 0
Sales tax	.9–1 .0
Federal income tax	1. 6
State income tax (national average)	1. 7
N.Y. State income tax	2. 0

He stresses that even in the 1952–68 era when the housing market was, for the most part, very strong, the property tax elasticity was only 1.2 [in part because tax assessments are not frequent enough to match annual property value increases].

Fiscal year	Distribution of local property tax collections, by type of government: All local governments	School district [1]	Primary units of general local government: Total [2]	Cities [2]	Counties [2]	Townships and special districts
	Amount (millions)					
1942	$4, 347	$1, 429	$2, 571	$1, 696	$875	$347
1952	8, 282	3, 246	4, 351	2, 711	1, 640	685
1957	12, 385	5, 307	6, 052	3, 678	2, 374	1, 026
1967	25, 418	12, 433	11, 006	6, 295	4, 711	1, 979
1969 (estimated)	31, 500	15, 800	13, 480	7, 720	5, 760	2, 220
	Percent					
1942	100	32. 9	59. 1	39. 0	20. 1	8. 0
1952	100	39. 2	52. 5	32. 7	19. 8	8. 3
1957	100	42. 8	48. 9	29. 7	19. 2	8. 3
1967	100	48. 9	43. 3	24. 8	18. 5	7. 8
1969 (estimated)	100	50. 2	42. 8	24. 5	18. 3	7. 0

[1] Includes estimated amounts allocable to dependent city and county school systems.

[2] Excludes estimated amounts allocable to dependent school systems.

Source: ACIR staff compilation (including 1969 estimates) based on U.S. Bureau of the Census data.

On the other hand, although for the nation as a whole the school district has succeeded in getting a majority share of local property tax revenues, the central cities have not been so fortunate. Because of the excessive costs of non-educational governmental services in central cities, the educational share lags behind that of non-educational expenses. This simply means that the competition for the property tax dollar for the urban school district is greater than for its non-urban neighbor (Table 13). The property tax had provided for a steadily increasing total dollar amount for local government but because of revenue being supplied by other taxes from state and federal sources, the percent of local revenue supplied by the property tax has been declining gradually for many years (Table 14). The per capita property tax has increased from $81.04 in 1958 to $138.83 in 1968 (Table 15). Again one must remember that the largest portion of this increase went for increased educational expenditures.

Recognizing the relative importance of the property tax in supporting education in most of the states, *it is also interesting to note the great variance in per capita property taxes among the states.* The range in 1968 was from $33.90 per capita in Alabama to $226.18 in California (Table 16). It is also of interest to note that the per capita property tax as a percent ratio to the total per capita state-local taxes varies from a low of 16.6 percent in Alabama to a high of 61.0 percent in New Hampshire (Table 17). And finally, it is perhaps most meaningful to see the ratio of property taxes to personal income in the states where the range is from 1.58 percent of personal income in Alabama being consumed by the property tax to 6.92 percent of personal income being consumed by property taxes in Wyoming (Table 18).

TABLE 13.—PER CAPITA, TOTAL, EDUCATION, AND NONEDUCATION EXPENDITURES 37 LARGEST SMSA'S—CENTRAL CITY AND OUTSIDE CENTRAL CITY AREAS, 1966–67

	Total expenditures		Education expenditures		Noneducation expenditures	
	Central City	Outside Central City	Central City[1]	Outside Central City	Central City[2]	Outside Central City
Northeast:						
Washington, D.C.: District of Columbia	$564	$316	$148	$179	$416	$137
Baltimore, Md	375	286	124	168	251	118
Boston, Mass	482	321	92	137	390	184
Newark, N.J	540	390	169	144	371	165
Patterson-C.P., N.J	270	273	97	151	173	122
Buffalo, N.Y	392	372	128	207	264	165
New York, N.Y	518	520	146	260	372	260
Rochester, N.Y	499	403	158	265	341	138
Philadelphia, Pa	293	255	126	139	167	116
Pittsburgh, Pa	319	232	104	137	215	95
Providence, R.I	241	201	94	109	147	92
Average	(408)	(317)	(126)	(160)	(282)	(145)
Midwest:						
Chicago, Ill	339	234	103	155	236	79
Indianapolis, Ind	312	268	139	173	173	95
Detroit, Mich	362	352	130	209	232	143
Minneapolis-St. Paul, Minn	369	424	113	231	256	193
Kansas City, Mo	303	238	137	127	166	111
St. Louis, Mo	295	266	133	146	162	120
Cincinnati, Ohio	460	200	201	107	259	93
Cleveland, Ohio	328	282	132	144	196	138
Columbus, Ohio	299	267	111	162	188	105
Dayton, Ohio	353	228	161	132	192	96
Milwaukee, Wis	416	383	151	165	265	218
Average	(349)	(286)	(137)	(159)	(211)	(126)
South:						
Miami, Fla	346	281	136	136	210	145
Tampa-St. Petersburg, Fla	305	216	113	113	192	103
Atlanta, Ga	316	279	134	154	182	125
Louisville, Ky	284	250	126	161	158	89
New Orleans, La	233	318	93	143	140	175
Dallas, Tex	219	290	91	177	128	113
Houston, Tex	260	326	113	209	147	117
San Antonio, Tex	204	208	101	145	103	63
Average	(271)	(271)	(113)	(155)	(158)	(116)

TABLE 13.—PER CAPITA, TOTAL, EDUCATION, AND NONEDUCATION EXPENDITURES 37 LARGEST SMSA'S—CENTRAL CITY AND OUTSIDE CENTRAL CITY AREAS, 1966–67—Continued

	Total expenditures		Education expenditures		Noneducation expenditures	
	Central City	Outside Central City	Central City [1]	Outside Central City	Central City [2]	Outside Central City
West:						
Los Angeles-L. B., Calif	454	376	164	184	290	192
San Bernardino R. & O., Calif	471	435	202	219	269	216
San Diego, Calif	383	391	135	209	248	182
San Francisco-Oakland, Calif	486	463	131	216	355	247
Denver, Col	342	278	131	164	211	114
Portland, Ore	378	256	150	172	228	84
Seattle, Wash	326	376	127	226	199	150
Average	(406)	(368)	(149)	(199)	(257)	(169)
Unweighted average 37 SMSA's	363	308	136	170	230	138

[1] Central City lower in education expense.
[2] Central City higher in noneducation expense.

Source: ACIR compilation.

TABLE 14.—THE PROPERTY TAX IN THE UNITED STATES, 1902 TO 1968

	Property tax				State property tax		Local property tax	
Year	Total (millions)	Percent of GNP [1]	Percent of Federal-State-local revenue	Percent of State-local revenue [1]	Total (millions)	Percent of State revenue [2]	Total (millions)	Percent of local revenue [2]
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1902	$706	2.9	41.6	67.5	$82	42.7	$624	68.4
1913	1,332	3.3	44.7	65.7	140	37.2	1,192	68.0
1922	3,321	4.5	35.6	64.4	348	25.6	2,973	71.6
1927	4,730	4.9	38.8	60.4	370	17.4	4,360	69.0
1932	4,487	7.7	43.6	57.0	328	12.9	4,159	67.3
1934	4,076	6.3	35.5	48.4	273	8.0	3,803	57.8
1936	4,093	5.0	30.2	43.8	228	5.7	3,865	57.0
1938	4,440	5.2	25.2	39.8	244	4.6	4,196	57.3
1940	4,430	4.4	24.8	37.7	260	4.5	4,170	54.0
1946	4,986	2.4	8.1	31.2	249	2.8	4,737	49.5
1948	6,126	2.4	9.1	28.3	276	2.3	5,850	44.4
1950	7,349	2.6	11.0	28.6	307	2.2	7,042	43.6
1952	8,652	2.5	8.5	27.8	370	2.2	8,282	42.7
1953	9,375	2.6	8.9	28.1	365	2.0	9,010	42.8
1954	9,967	2.8	9.2	28.2	391	2.1	9,577	42.8
1955	10,735	2.7	10.1	28.6	412	2.1	10,325	42.8
1956	11,749	2.8	9.8	28.2	467	2.1	11,282	42.8
1957	12,864	2.9	9.9	28.0	479	1.9	12,385	42.8
1958	14,047	3.2	10.8	28.5	533	2.0	13,514	43.3
1959	14,983	3.1	11.2	27.8	566	1.9	14,417	43.1
1960	16,405	3.3	10.7	27.2	607	1.8	15,768	42.5
1961	18,002	3.5	11.3	27.9	631	1.8	17,370	42.9
1962	19,054	3.4	11.3	27.4	640	1.7	18,414	42.5
1963	20,089	3.4	11.1	26.7	688	1.7	19,401	41.7
1964	21,241	3.4	11.0	26.1	722	1.6	20,519	41.4
1965	22,583	3.3	11.1	25.7	766	1.6	21,817	40.8
1966	24,670	3.3	10.9	25.3	834	1.5	23,836	40.2
1967	26,280	3.3	10.4	24.4	862	1.4	25,418	38.9
1968	27,747	3.2	10.4	23.6	912	1.3	26,835	38.2

[1] Slight decline during last 10 years.
[2] Steady decline, with little exception, from 1902.

Note: Cols. 1, 2, 6, and 8 taken from Government finance section of U.S. Bureau of Census, Historical Statistics of the United States, Colonial Times to 1957, and from Bureau of the Census, Government Finances Cols. 4, 5, 7, and 9 calculated from data presented in Historical Statistics and Government Finances. Col. 3 from data presented in Historical Statistics, and Government Finances, Business Statistics.

Source: Report Governor's Minnesota Property Tax Study Advisory Committee.

TABLE 15.—RELATIONSHIP OF PER CAPITA PROPERTY TAXES TO PER CAPITA GENERAL REVENUES FOR ALL GOVERNMENTS FOR SELECTED YEARS, 1902–68

	Per capita general revenues				
	All governments		State-local		
	Amount	Property tax (percent)	Amount	Property tax (percent)	Per capita property taxes
Fiscal year:					
1902	$20.62	43.3	$12.46	71.6	$8.92
1913	29.44	46.5	19.66	69.7	13.70
1922	80.81	37.3	43.44	69.5	30.17
1927	97.04	41.0	61.08	65.1	39.74
1932	76.72	46.8	58.21	61.7	35.94
1934	82.79	39.0	60.76	53.1	32.25
1936	97.87	32.7	65.56	48.7	31.96
1938	115.72	29.6	71.08	48.1	34.20
1940	112.46	29.8	72.73	46.1	33.59
1942	180.53	18.6	77.25	43.5	33.64
1944	423.57	7.9	78.81	42.2	33.27
1946	389.93	9.0	87.39	40.4	35.27
1948	406.92	10.3	117.34	35.6	41.78
1950	385.60	12.6	137.86	35.1	48.45
1952	568.22	9.7	160.36	34.4	55.10
1954	590.11	10.4	178.63	34.4	61.37
1955	564.31	11.5	188.01	34.5	64.95
1956	624.74	11.2	207.26	33.9	70.24
1957	661.94	11.4	224.11	33.7	75.54
1958	648.85	12.5	237.80	34.1	81.04
1959	646.85	13.1	256.67	33.1	84.88
1960	725.72	12.6	280.61	32.5	91.15
1961	731.90	13.4	295.21	33.3	98.35
1962	766.17	13.4	313.28	32.7	102.55
1963	804.55	13.1	330.14	31.9	105.15
1964	840.10	13.2	357.71	31.0	111.02
1965	875.52	13.3	381.80	30.5	116.52
1966	962.24	13.1	423.95	29.7	125.96
1967	1,044.64	12.6	460.91	28.6	131.64
1968	1,087.37	12.8	506.67	27.4	138.83

Source: U.S. Bureau of the Census, Historical Summary of Governmental Finances in the United States (1957 Census of Governments, vol. IV, No. 3), table 1, pp. 11–13, and Governmental Finances in 1962, tables—.

TABLE 16.—PER CAPITA PROPERTY TAXES BY STATES—1942, 1957, AND 1968

State	1942 [1]		1957 [1]		1968 [2]	
	Amount	Rank	Amount	Rank	Amount	Rank
United States average	$33.88		$75.54		$138.83	
Median of States	34.25		77.16		136.46	
Alabama	8.98	47	20.44	48	33.90	50
Alaska					91.16	35
Arizona	31.66	28	99.18	8	150.88	21
Arkansas	8.65	48	26.55	46	52.44	48
California	43.14	8	112.67	3	226.18	1
Colorado	42.08	10	95.98	11	159.49	15
Connecticut	46.03	7	101.85	6	186.46	8
Delaware	15.93	39	32.44	42	73.00	40
Florida	24.05	33	56.12	32	114.91	31
Georgia	12.84	45	36.13	39	75.58	39
Hawaii						37
Idaho	38.34	16	78.06	23	119.01	30
Illinois	40.56	15	92.35	16	151.01	20
Indiana	31.70	27	77.82	24	145.96	23
Iowa	34.96	23	85.93	18	172.17	11
Kansas	36.64	18	101.80	7	166.21	12
Kentucky	16.01	38	38.78	37	60.29	45
Louisiana	16.19	37	35.39	40	55.44	46
Maine	37.81	17	74.91	26	128.71	27
Maryland	30.90	29	67.73	29	137.00	25
Massachusetts	55.05	3	122.28	1	204.02	3
Michigan	35.29	22	83.60	20	151.10	19
Minnesota	41.45	13	93.61	15	[3] 152.26	16
Mississippi	13.50	43	29.74	44	54.64	47
Missouri	24.16	31	57.97	31	107.54	33
Montana	51.07	4	109.49	5	191.61	6
Nebraska	36.10	20	97.95	10	186.49	7
Nevada	50.44	6	83.00	21	179.62	10

TABLE 16.—PER CAPITA PROPERTY TAXES BY STATES—1942, 1957, AND 1968—Continued

State	1942[1]		1957[1]		1968[2]	
	Amount	Rank	Amount	Rank	Amount	Rank
New Hampshire	42.75	9	95.41	12	165.19	13
New Jersey	60.63	2	112.91	2	199.73	4
New Mexico	17.06	36	36.84	38	61.64	44
New York	62.22	1	109.94	4	192.25	5
North Carolina	12.82	46	30.15	43	63.32	43
North Dakota	50.89	5	88.25	17	151.68	18
Ohio	29.89	30	73.19	27	135.92	26
Oklahoma	18.55	35	46.62	35	84.73	36
Oregon	36.46	19	85.08	19	152.10	17
Pennsylvania	33.92	25	53.85	34	93.93	34
Rhode Island	41.31	14	76.50	25	146.49	22
South Carolina	13.37	44	99.99	47	99.99	99
South Dakota	41.51	12	94.99	14	131.78	9
Tennessee	15.90	40	33.93	41	63.79	41
Texas	22.42	34	63.33	30	110.80	32
Utah	34.57	24	71.33	28	123.59	28
Vermont	32.68	26	78.84	22	138.42	24
Virginia	14.58	42	39.88	36	79.61	38
Washington	24.07	32	55.84	33	121.40	29
West Virginia	15.56	41	28.46	45	63.45	42
Wisconsin	41.79	11	95.05	13	160.02	14
Wyoming	35.82	21	98.34	9	207.87	2

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[1] State and local government finances in 1942 and 1957 (GSS-No. 43), table 7.
[2] Governmental finances in 1967-68, table 22, p. 45. U.S. Bureau of the Census.
[3] Less homestead credit.

Source: Report to Governor's Minnesota Property Tax Study Advisory Committee.

TABLE 17.—RATIO OF PER CAPITA PROPERTY TAX TO TOTAL PER CAPITA STATE-LOCAL TAXES BY STATES, 1942, 1957, AND 1968

State	1942[1]		1957[1]		1968[2]	
	Ratio, percent	Rank	Ratio, percent	Rank	Ratio, percent	Rank
United States average	50.1		44.6		41.1	
Median of States	54.0		46.2		41.2	
Alabama	32.5	45	20.2	48	16.6	50
Alaska					27.2	30
Arizona	48.5	31	58.4	4	45.4	19
Arkansas	30.7	47	26.5	42	26.3	43
California	49.9	29	47.2	23	46.3	16
Colorado	56.6	16	50.8	15	45.3	20
Connecticut	57.5	15	50.0	18	52.3	6
Delaware	28.6	48	24.0	44	21.0	47
Florida	44.7	34	35.4	33	39.8	27
Georgia	41.2	36	29.0	38	30.9	36
Hawaii					19.6	49
Idaho	62.0	8	50.2	17	37.7	32
Illinois	55.5	19	51.7	13	45.7	17
Indiana	55.1	22	54.9	9	47.9	13
Iowa	55.3	21	48.8	20	48.4	11
Kansas	60.9	11	58.0	7	51.6	7
Kentucky	47.0	33	36.3	31	26.6	42
Louisiana	33.7	42	21.8	47	19.8	48
Maine	62.7	6	50.0	19	46.6	15
Maryland	57.7	14	42.5	29	38.3	30
Massachusetts	67.2	4	58.0	8	51.5	8
Michigan	52.8	25	46.1	25	41.2	24
Minnesota	56.4	17	51.8	11	41.1	25
Mississippi	41.0	37	27.5	40	26.7	41
Missouri	49.7	30	44.4	27	39.6	28
Montana	68.4	3	58.3	5	56.4	4
Nebraska	69.1	2	69.9	1	57.5	2
Nevada	61.4	10	36.1	32	41.9	22
New Hampshire	60.5	12	62.8	3	61.0	1
New Jersey	75.3	1	64.0	2	57.3	3
New Mexico	34.2	41	23.4	45	21.8	46
New York	58.4	13	47.7	22	38.2	31
North Carolina	31.3	46	26.8	41	26.8	40
North Dakota	67.0	5	52.8	10	48.0	12
Ohio	47.8	32	48.0	21	49.1	10
Oklahoma	35.7	40	30.4	36	31.8	34
Oregon	51.7	26	42.4	30	47.7	14

TABLE 17.—RATIO OF PER CAPITA PROPERTY TAX TO TOTAL PER CAPITA STATE-LOCAL TAXES BY STATES, 1942, 1957, AND 1968—Continued

State	1942[1]		1957[1]		1968[2]	
	Ratio, percent	Rank	Ratio, percent	Rank	Ratio, percent	Rank
Pennsylvania	51.1	27	33.4	34	31.5	35
Rhode Island	62.6	7	50.4	16	44.2	21
South Carolina	37.0	39	23.0	46	22.3	45
South Dakota	61.5	9	58.2	6	55.6	5
Tennessee	44.1	35	28.9	39	28.1	38
Texas	55.5	20	46.2	24	45.6	18
Utah	53.3	24	43.8	28	41.1	26
Vermont	50.4	28	45.0	26	39.5	29
Virginia	39.6	38	31.1	35	29.6	37
Washington	33.7	43	29.6	37	31.9	33
West Virginia	32.7	44	25.4	43	25.5	44
Wisconsin	55.9	18	51.8	12	41.5	23
Wyoming	54.6	23	51.4	14	51.3	9

[1] Based on table 7, "State and Local Government Finances in 1942 and 1957" (GSS–No. 43).
[2] Based on table 22, p. 45, "Governmental Finances in 1967–68," United States Bureau of the Census.

Source: Report to Governor's Minnesota Proper Tax Study Advisory Committee, Rolland F. Hatfield, director, Minnesota State Planning Agency, St. Paul, Minn. 1970.

TABLE 18.—PER CAPITA PROPERTY TAXES AND RATIO OF PROPERTY TAXES TO PERSONAL INCOME, BY STATES, 1967–68

State	Per capita		Ratio to personal income[2]		State	Per capita		Ratio to personal income[2]	
	Amount	Rank[1]	Percent	Rank		Amount	Rank[1]	Percent	Rank
U.S. average	$138.83		4.44						
Median State	136.46		4.50						
Alabama	33.90	50	1.58	50	Montana	191.61	6	6.85	2
Alaska	91.16	35	2.48	46	Nebraska	186.49	7	6.06	5
Arizona	150.88	21	5.67	8	Nevada	179.62	10	5.11	14
Arkansas	52.44	48	2.55	43	New Hampshire	165.19	13	5.54	9
California	226.18	1	6.19	4	New Jersey	199.73	4	5.50	11
Colorado	156.49	15	5.28	14	New Mexico	61.64	44	2.52	44
Connecticut	186,46	8	4.75	22	New York	192.25	5	5.05	16
Delaware	73.00	40	2.05	49	North Carolina	63.32	43	2.65	42
Florida	114.91	31	4.14	28	North Dakota	151.68	18	5.97	6
Georgia	75.58	39	3.03	35	Ohio	135.92	26	4.28	27
Hawaii	82.33	37	2.65	41	Oklahoma	84.73	36	3.23	34
Idaho	119.01	30	4.66	23	Oregon	152.10	17	4.99	17
Illinois	151.01	20	4.06	31	Pennsylvania	93.53	34	2.97	36
Indiana	145.96	23	4.63	24	Rhode Island	146.49	22	4.46	26
Iowa	172.17	11	5.53	10	South Carolina	45.00	49	2.11	48
Kansas	166.21	12	5.50	12	South Dakota	181.78	9	6.84	3
Kentucky	60.29	45	2.52	45	Tennessee	63.79	41	2.72	40
Louisiana	55.44	46	2.30	47	Texas	110.80	32	4.08	30
Maine	128.71	27	4.87	20	Utah	123.59	28	4.79	21
Maryland	137.00	25	4.09	29	Vermont	138.42	24	4.96	19
Massachusetts	204.02	3	5.78	7	Virginia	79.61	38	2.88	37
Michigan	151.10	19	4.53	25	Wasnington	121.40	29	3.66	32
Minnesota[3]	152.26	16	4.97	18	West Virginia	63.45	42	2.73	39
Mississippi	54.64	47	2.87	38	Wisconsin	160.02	14	5.10	15
Missouri	107.54	33	3.61	33	Wyoming	207.87	2	6.92	1

[1] "Governmental Finances in 1967–68," Bureau of the Census, p. 45.
[2] "State and Local Finances Significant Features, 1967 to 1970," Advisory Commission on Intergovernmental Relations, November 1969, p. 26.
[3] Less homestead credit.

Source: Report to Governor's Minnesota Property Tax Study Advisory Committee, Rolland F. Hatfield, director, Minnesota State Planning Agency, St. Paul, Minn., 1970.

Of great concern to many educators and most tax authorities is the percent of market value of the property tax. Here again we see a wide divergence among states from 7.9 percent on a market value $19,000 house in Newark, New Jersey to 0.56 percent for the same value home in New Orleans, Louisiana (Table 19). More important, because substantial funds come to local school districts from sources other than the property tax, *is the total tax burden as a percentage of* *income in the states.* The variance here is from 16.6 percent of the $3,500 adjusted gross income for a family of four in Maine in 1968 to 3.1 percent of the $50,000 adjusted gross income in Washington (Table 20). *It is such statistics that vividly indicate the nearly universal regressivity* of state and local taxes and the concomitant necessity for securing funds from the progressive federal income tax to assume a larger portion of state and local financial burdens.

URBAN EDUCATION COSTS

Securing adequate financial resources to support public elementary and secondary education is an increasingly difficult problem for most of the nations' school districts. The districts having the most difficult time are those in the cities of the metropolitan areas of the country.

Many of the roots of the crisis in financing large city educational programs may be found in the redistribution of population and various economic developments that have taken place during recent years. These changes have left the poor, undereducated, aged and non-white in the central cities and have taken heavy manufacturing, many retail establishments and other kinds of business activity to the suburbs along with middle and upper income families. The obvious result has been the inability of the tax base of the cities and income level of its residents to meet the high-cost educational and other needs of the population in the city. The population and economic shifts from central cities to the suburbs have combined to depress the income base of the central cities relative to their suburbs and have caused a much slower growth in the urban property tax base. *For the nation as a whole, suburban property growth rate in recent years has been more than two and one-half times that of the central cities.* The growth on a per capita basis is the key point.

TABLE 19.—ESTIMATED REAL ESTATE TAX ON A $19,000 (MARKET VALUE) HOME LOCATED IN THE LARGEST CITY IN EACH STATE, 1968

	Real estate tax [1]		
City and State [2]	Amount	As a percent of market value	Percent of market value, rank
Newark, N.J	$1,501	7.90	1
Burlington, Vt	771	4.06	2
Boston, Mass	737	3.88	3
Milwaukee, Wis	724	3.81	4
Indianapolis, Ind	694	3.65	5
Manchester, N.H	658	3.46	6
Hartford, Conn	647	3.41	7
Sioux Falls, S. Dak	643	3.38	8
Portland, Me	640	3.37	9
Des Moines, Iowa	635	3.34	10
Omaha, Nebr	587	3.09	11
Portland, Oreg	562	2.96	12
Wilmington, Del	560	2.95	13
Providence, R.I	555	2.92	14
Baltimore, Md	544	2.86	15
Wichita, Kans	541	2.85	16
Miami, Fla	538	2.83	17
Great Falls, Mont	520	2.74	18
Detroit, Mich	510	2.68	19
Philadelphia, Pa	496	2.61	20
Fargo, N. Dak	494	2.60	21
New York, N.Y	476	2.51	22
Anchorage, Alaska	459	2.42	23
Los Angeles, Calif	446	2.35	24
Phoenix, Ariz	432	2.27	25
Memphis, Tenn	424	2.23	26
Boise, Idaho	424	2.23	27
Denver, Colo	410	2.16	28
Cleveland, Ohio	309	2.15	29
St. Louis, Mo	404	2.13	30
Houston, Tex	404	2.13	31
Chicago, Ill	402	2.12	32
Charlotte, N.C	386	2.03	33
Salt Lake City, Utah	378	1.99	34
Minneapolis, Minn	362	1.91	35
Atlanta, Ga	356	1.87	36
Cheyenne, Wyo	353	1.86	37
Oklahoma City, Okla	342	1.79	38
Las Vegas, Nev	333	1.75	39
Jackson, Miss	323	1.70	40
Louisville, Ky	302	1.59	41
Seattle, Wash	288	1.52	42
Little Rock, Ark	265	1.39	43
Columbia, S.C	251	1.32	44
Albuquerque, N. Mex	239	1.26	45
Norfolk, Va	224	1.18	46
Birmingham, Ala	192	1.01	47
Charleston, W. Va	179	.94	48
Honolulu, Hawaii	150	.79	49
New Orleans, La	106	.56	50
Median	428	2.25	

[1] Real estate tax estimates are based on a home with a $19,000 market value. Amounts were originally computed for 1966 on the basis of effective property tax rate data for selected major local areas, reported by the U.S. Bureau of the Census in "Taxable Property Values," vol. 2 of the 1967 census of governments. The 1966 estimate for the largest city in each State was reviewed by a knowledgeable official in each such city and updated to 1968 for this presentation. In a number of instances, local estimates for 1968 deviated significantly from the 1966; difference was at least ⅕ in the following cities: Newark, Detroit, Anchorage, Charlotte, and Atlanta.

[2] Cities are ranked from high to low on the basis of local direct taxes as a percentage of gross income.

Sources: "Urban American and the Federal System," Advisory Commission on Intergovernmental Relations, Washington D.C., October 1969.

Report to Governor's Minnasota Property Tax Study Advisory Committee, Rolland F. Hatfield, director, Minnesota State Planning Agency, St. Paul, Minn. 1970.

TABLE 20.—DIFFERENCES IN FAMILY TAX BURDENS

DISTRIBUTION OF STATE-LOCAL TAX BURDENS RELATIVE TO FAMILY INCOME SIZE, 50 STATES AND ALL-STATE AVERAGE, 1968[1]

[Tax burdens as percentages of income]

State	Adjusted gross income, family of 4, 1968													
	$3,000		$5,000		$7,500		$10,000		$17,500		$25,000		$50,000	
	Percent	Rank	Percent	Rank	Percent	Rank	Percent	Rank	Percent	Rank	Percent	Rank	Percent	Rank
All States	12.8		10.9		9.4		8.7		6.5		6.5		5.4	
Alabama	10.7	42	8.8	44	7.8	40	7.5	39	5.8	36	5.7	36	4.5	38
Alaska	12.1	32	10.5	30	9.2	29	8.5	29	6.4	28	6.5	27	6.4	12
Arizona	14.5	15	12.6	10	10.8	9	9.8	10	7.4	11	7.7	8	7.3	4
Arkansas	10.4	44	8.9	43	7.7	42	7.1	42	5.6	40	5.7	37	4.8	35
California	12.1	33	9.8	34	8.3	37	7.9	35	6.3	30	6.9	22	6.6	8
Colorado	12.7	24	11.1	21	9.8	18	9.3	18	7.2	15	7.7	9	6.6	9
Connecticut	14.6	12	11.7	15	9.5	21	8.2	30	5.9	35	5.6	39	4.4	40
Delaware	10.9	37	9.1	39	8.2	38	8.2	31	7.1	18	7.5	12	6.2	13
Florida	15.0	10	12.2	13	10.0	16	8.7	26	6.0	34	5.8	35	4.6	37
Georgia	13.7	18	11.2	20	9.5	22	8.8	23	7.2	16	7.6	11	5.5	22
Hawaii	9.7	48	9.8	35	9.6	20	9.8	11	7.5	8	7.7	10	6.8	6
Idaho	11.9	34	10.8	27	9.1	31	8.8	24	7.0	21	7.4	15	5.9	15
Illinois	14.6	13	11.7	16	9.5	23	8.2	32	5.6	41	5.1	41	3.9	43
Indiana	15.4	6	13.1	5	11.2	4	10.1	8	7.5	9	7.3	16	5.7	18
Iowa	15.0	11	13.2	4	12.0	3	11.1	3	8.0	6	8.0	6	6.0	14
Kansas	15.5	5	12.7	9	9.3	26	9.6	13	7.3	14	7.3	17	5.7	19
Kentucky	12.4	28	10.9	26	10.6	11	10.4	5	7.9	6	7.8	7	5.9	16
Louisiana	9.7	49	8.3	48	6.7	49	6.3	47	4.5	46	4.9	43	5.2	26
Maine	16.6	1	13.7	2	11.0	7	9.6	14	6.7	25	6.3	30	4.9	33
Maryland	14.6	14	13.0	7	12.5	1	12.6	1	9.4	1	9.7	2	7.8	3
Massachusetts[1]	14.3	16	12.1	14	11.2	5	10.3	6	7.6	7	7.5	13	5.5	23
Michigan	12.9	22	11.1	22	9.5	24	8.9	22	6.9	24	6.8	24	5.2	27
Minnesota	12.2	30	11.3	18	10.8	10	10.7	4	8.4	3	8.7	4	6.8	7
Mississippi	15.2	8	12.3	12	10.4	15	9.8	12	7.4	12	7.3	18	5.7	20
Missouri	12.8	23	11.0	25	9.4	25	8.7	27	6.4	29	6.4	29	4.9	34
Montana	10.8	40	9.1	40	8.1	39	7.7	37	6.3	31	6.3	31	4.8	36
Nebraska	15.1	9	12.6	11	10.5	12	9.5	16	7.5	10	6.9	23	5.8	17
Nevada	10.7	43	8.7	46	7.0	47	6.1	48	4.3	49	4.1	48	3.3	48
New Hampshire	13.5	19	10.8	28	8.7	34	7.5	40	5.3	42	5.0	42	3.7	46
New Jersey[1]	16.3	3	13.4	3	10.9	8	9.6	15	6.7	26	6.5	28	5.2	28
New Mexico	12.2	31	10.4	31	9.0	32	8.1	33	5.8	37	5.7	38	5.0	32
New York	13.2	21	11.5	17	10.5	13	10.2	7	8.3	4	9.7	3	9.8	1
North Carolina	10.4	45	9.3	38	8.8	33	8.8	25	7.0	22	7.5	41	7.3	5

North Dakota	13.3	20	11.1	23	9.2	30	8.5	29	7.4	13	8.1	5	6.5	11
Ohio	10.9	38	9.1	41	7.6	43	6.8	44	4.8	44	4.7	45	3.9	44
Oklahoma	12.3	39	10.2	33	8.4	35	7.7	38	5.7	38	6.0	33	5.2	29
Oregon	10.9	39	9.7	36	9.3	27	9.2	20	7.1	19	7.3	19	5.6	21
Pennsylvania	15.4	7	13.0	8	11.1	6	9.9	9	7.0	23	6.7	25	5.2	30
Rhode Island	16.4	2	13.1	6	10.5	14	9.1	21	6.5	27	6.0	34	4.5	39
South Carolina	9.8	47	8.3	49	7.4	46	7.1	42	6.1	32	6.6	26	5.3	24
South Dakota	13.9	17	11.3	19	9.3	28	8.1	34	5.7	39	5.4	40	4.3	41
Tennessee	12.5	27	10.3	32	8.4	36	7.4	41	5.0	43	4.9	44	4.0	42
Texas	11.3	36	9.1	42	7.5	44	6.5	46	4.6	45	4.5	46	3.7	47
Utah	12.7	25	10.8	29	9.7	19	9.3	19	7.2	17	7.0	21	5.3	25
Vermont	12.7	26	11.1	24	9.9	17	9.4	17	7.1	20	7.3	20	6.6	10
Virginia	10.1	46	8.8	45	7.8	41	7.8	36	6.1	33	6.2	32	5.1	31
Washington	11.7	35	9.4	37	7.5	45	6.5	46	4.4	47	4.1	49	3.1	50
West Virginia	9.4	50	7.8	50	6.6	50	5.9	50	4.4	48	4.3	47	3.8	45
Wisconsin	15.7	4	13.8	1	12.5	2	12.2	2	9.3	2	9.9	1	8.2	2
Wyoming	10.8	41	8.7	47	7.0	48	7.0	48	4.3	50	4.1	50	3.3	49

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[1] Massachusetts and New Jersey rely on property tax. No State income tax in New Jersey.

The most recent evidence on taxable valus per capita for 32 of the nation's 43 largest urban areas is presented in Table 21 (in which per capita values for the outlying portions of the urban area are expressed as percentages of the central city values). In most cases taxable capacity is higher in suburban territory. This is especially true of the older metropolitan areas, particularly those in the Northeast and Midwest. In Baltimore suburban property values per capita were only 81% of those in the central city in 1950 but had risen to 110% by 1960. In Milwaukee Co., suburban property values per capita were 105% of those in the central city in 1935, 120% by 1940, and 138% by 1960. The Milwaukee data suggest the general pattern (in the view of tax expert Dick Netzer of NYU).

The problems of the cities become even more pronounced when one is made aware that cities are unable to devote as large a share of their resources to education as their suburbs. This is caused by the high cost population and older physical plant of the central cities which produce demands for general government services—health, public safety, sanitation, public works, transportation, public welfare, public housing and recreation—that are proportionately far greater than those of the suburbs. Central cities devote nearly 65 percent of their budgets to non-educational services, while their suburbs and other outstate communities devote less than 45 percent of their resources to similar services (Table 22).

TABLE 21.—PROPERTY TAX DIFFERENTIALS, CENTRAL CITIES VERSUS SUBURBS, SELECTED LARGE METROPOLITAN AREAS, SELECTED YEARS BETWEEN 1957 AND 1961

[Values shown=outlying portions of area as percentage of central city]

Region and metropolitan area	Estimated per capita taxable property values	Estimated per capita property tax revenue	Approximate effective tax rate relationship
Northeast:			
New York City and rest of SMSA	131	134	(100)102
Philadelphia and rest of SMSA	146	94	64
Buffalo and rest of Erie County	112	96	(92)86
Newark and rest of Essex County	158	91	(51)58
Rochester and rest of Monroe County	100	58	(75)58
North Central:			
Chicago and rest of Cook County	123	93	76
Detroit and rest od Wayne County	102	87	85
Cleveland and rest of Cuyahoga County	106	88	(97)83
St. Louis and rest of SMSA	96	105	109
Milwaukee and rest of Milwaukee County	138	91	(81)66
Cincinnati and rest of Hamilton County	122	66	54
Kansas City and rest of Jackson County	52	62	119
Columbus and rest of Franklin County	117	137	117
Toledo and rest of Lucas County	122	107	88
Omaha and rest of Douglas County	148	65	44
West:			
Los Angeles and rest of Los Angeles County	102	68	67
San Francisco and rest of SMSA	85	89	105
San Diego and rest of San Diego County	100	90	90
Seattle and rest of King County	91	66	73
Denver and rest of SMSA	90	58	64
Phoenix and rest od Maricopa County	116	163	141
Portland and rest of Multnomah County	77	47	61
Oakland and rest of Almaeda County	90	78	87
South:			
Baltimore and rest of SMSA	110	58	(55)53
Washington, D.C., and rest of SMSA	95	96	101
San Antonio and rest of Bexar County	203	17	8
Memphis and rest of Shelby County	108	4	4
Atlanta and rest of Fulton County	82	71	87
Louisville and rest of Jefferson County	145	98	68
Fort Worth and rest of Tarrant County	88	32	36
Birmingham and rest of Jefferson County	87	102	117
Oklahoma City and rest of Oklahoma County	97	48	49

Central cities raise about 30 percent less per capita for education from local taxes than other school districts. However, central city residents tax themselves 40 percent more heavily in total tax effort than their surrounding areas (Table 23).

Growth in educational expenditures outlined above has far outstripped the slow rate of growth in the urban tax base and still cities spend less per pupil for education than do other parts of metropolitan areas (Table 23). Educational programs and services in central cities generally cost more per unit than they do elsewhere. The two most obvious reasons for this difference are the higher cost of many budget items in the city and the additional expense imposed by the socio-economic makeup of the urban school population. Higher teacher salaries, caused by a stable and mature teaching staff at the top of the salary schedule, higher salaries of maintenance, secretarial and other non-instructional personnel, (all affected by comparably more active unionization) are important cost components for central cities. In addition, the higher costs of school sites and construction simply add to an already expensive educational program cost compared to the non-urban district. Another important factor that adds to the cost of education in the cities is the variety and expensiveness of educational programs to meet the needs of the urban school population. The population of the schools of the central cities is increasingly composed of students from disadvantaged and/or non-white families (Table 24).

TABLE 22.—CENTRAL CITIES, PERCENT OF TOTAL BUDGET, EDUCATION AND NONEDUCATION USES

	Per capita taxes					
	Total		Education		Noneducation	
	CC	OCC	CC	OCC	CC	OCC
Northeast	($223)	($174)	($61)	($105)	($159)	($79)
Washington, D.C.	340	147	NA	NA	NA	NA
Baltimore, Md	193	127	NA	NA	NA	NA
Boston, Mass	232	162	55	108	177	54
Newark,[1] N.J	259	224	57	128	202	95
Paterson-C.P.,[1] N.J	180	214	74	135	106	79
Buffalo, N.Y	221	172	40	55	181	118
New York, N.Y	305	255	90	139	215	115
Rochester, N.Y	213	176	68	116	145	60
Philadelphia, Pa	176	139	51	85	125	54
Pittsburgh, Pa	176	126	52	71	124	55
Providence, R.I	157	169	NA	NA	NA	NA
Midwest	(187)	(145)	(75)	(89)	(113)	(56)
Chicago, Ill	189	168	65	104	124	64
Indianapolis, Ind	180	141	78	98	102	42
Detroit, Mich	170	160	50	95	119	64
Minneapolis-St. Paul, Minn	190	175	63	107	128	68
Kansas City, Mo	206	118	86	66	120	47
St. Louis, Mo	203	137	71	87	132	50
Cincinnati, Ohio	193	110	79	69	114	41
Cleveland, Ohio	181	172	81	112	110	59
Columbus, Ohio	129	146	67	108	62	39
Dayton, Ohio	217	113	107	78	111	35
Milwaukee, Wis	203	163	73	55	130	107
South	(135)	(10[illegible])	(45)	(52)	(90)	(52)
Miami, Fla	197	15[illegible]	62	62	135	90
Tampa- St. Petersburgh, Fla	142	106	44	44	98	62
Atlanta, Ga	159	105	56	55	103	51
Louisville, Ky	135	110	39	76	96	34
New Orleans, La	109	60	39	10	70	50
Dallas, Tex	142	108	51	60	91	48
Houston, Tex	122	154	41	99	81	55
San Antonio, Tex	71	34	28	11	43	23
West	(230)	(273)	(95)	(91)	(135)	(83)
Los Angeles- L.B., Calif	250	225	100	100	150	125
San Bernardino, R. & O., Calif	234	202	115	99	119	103
San Diego, Calif	169	177	73	87	96	91
San Francisco-Oakland, Calif	322	222	85	127	237	95
Denver, Colo	220	154	114	89	107	65
Portland, Oreg	208	131	91	79	118	52
Seattle, Wash	205	100	85	53	119	47
Weighted average for 37 SMSA's	219	170				
Weighted average for 34 SMSA's	217	172	73	96	144	76
Unweighted averages	195	[2] 150	[3] 69	84	126	66

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[1] Educational taxes are for 1967–68.
[2] For 37 SMSA's.
[3] For 34 SMSA's.

TABLE 23.—TAXES AS A PERCENT OF PERSONAL INCOME, 37 LARGEST METROPOLITAN AREAS, CENTRAL CITY AND SUBURBS, 1966–67

Metropolitan area	Taxes (local) as a percent of personal income	
	Central city	Outside central city
Washington	9.1	4.4
Baltimore	7.2	3.5
Boston	8.4	4.0
Newark	8.8	5.5
Patterson-Clifton	6.4	6.2
Buffalo	7.7	5.2
New York	8.0	5.6
Rochester	6.4	4.8
Philadelphia	6.2	4.0
Pittsburgh	5.8	3.9
Providence	5.4	5.6
Northeast	7.2	4.8
Chicago	5.2	3.9
Indianapolis	5.3	3.9
Detroit	4.9	4.2
Minneapolis-St. Paul	5.1	4.8
Kansas City	6.3	3.4
St. Louis	7.0	3.8
Cincinnati	6.3	3.5
Cleveland	6.4	4.2
Columbus	4.8	3.9
Dayton	6.8	3.2
Milwaukee	6.4	3.9
Midwest	5.9	3.9
Miami	6.7	4.6
Tampa-St. Petersburg	5.3	4.2
Atlanta	5.1	2.9
Louisville	4.6	3.2
New Orleans	3.7	2.1
Dallas	4.5	3.3
Houston	4.0	5.3
San Antonio	3.0	1.0
South	4.17	3.3
Los Angeles-Long Beach	6.3	6.3
San Bernardino-Riverside	8.2	8.0
San Diego	5.2	6.1
San Francisco	7.1	5.7
Denver	6.5	5.0
Portland	5.9	4.2
Seattle	3.7	3.5
West	6.1	5.5
Total	6.1	4.3

Source: ACIR compilation. "The Pattern of Allocation of Federal Aid to Education," a preliminary summary of findings, Joel S. Berke, Stephen K. Bailey, Alan K. Campbell, Seymour Sacks. The Policy Institute of the Syracuse University Research Corp.

A dramatic example of the disadvantage of urban school districts is provided by the cost of land prices. For instance, Detroit purchases school sites in areas where land is exceedingly scarce and consequently exceedingly costly. Many Detroit suburbs still have access to open and undeveloped land. In 1967 Detroit paid an average price per acre of school sites which was in excess of $100,000, contrasted with only approximately $6,000 per acre in surrounding suburban districts. In the 25 largest cities average land costs per acre are $658,000—in their contiguous suburbs, $3,500.

The most expensive item in school budgets is professional salaries. Here again, in order to obtain the teaching manpower necessary to staff schools, Detroit offers a higher beginning salary than many of its neighboring school districts. Detroit's entry level minimum salary in 1968–69 was $7,500. The average entry level minimum salary for 35 surrounding suburban districts was $6,922. In fact, the closest suburban district in terms of entry level salary was $300 below Detroit. Moreover, big cities typically must pay higher rates for skilled maintenance workers. The present arrangements by which states allocate funds do not compensate for such cost differentials.

Continuing with Detroit as an example, we must observe its tax base is actually decreasing. Assessed valuation dropped from $20,000 per pupil in 1960 to $16,500 in 1968. This is a consequence of a variety of factors: industry moving to sites outside the city, urban renewal projects which replace tax paying buildings with public structures, and freeway construction which destroys taxable property.

The combination of a high cost population, a stagnant tax base, increasing demands for non-educational, services, and an increasing resource gap between cities and their suburbs, provides more than adequate explanation for the financial crisis that is confronting the school districts in the central cities.

Both state and federal educational aid programs will have to be increased and modified in order to assist urban school districts in coping with their educational finance problems.

THE PROPERTY TAX

The property tax is rooted in a rural society where the value of land and buildings owned by an individual served as the best measure of taxable capacity. In our modern day, urban society, there is increasing support for the belief that the annual flow of money income to the individual ordinarily represents the most precise measure of ability to pay taxes.

The regressivity of the property tax is now well documented (see Table 26). In addition, there is a regressivity in the total state-local tax burden as well. The range of differences in the distribution of state-local tax burdens relative to family income size is from 16.6 percent of the $3,500 adjusted gross income for a family of four in 1968 to 3.1 percent of the $50,000 adjusted gross income for the same type of family (Table 17). The problems caused by retaining this outmoded measure of taxable capacity are reflected in the hardships that the payment of residential property taxes imposes on low income, including many of the retired, households. *Payment of residential property tax can become an extraordinary tax burden and consume as much as 50 percent of a household's limited income* (Table 12 and Table 25).

TABLE 24.—NONWHITE POPULATION CONTRASTED WITH NONWHITE SCHOOL ENROLLMENT FOR 15 LARGEST CITIES: 1960–65

City	Percent nonwhite of total population		Percent nonwhite of school population	
	1960	1965[1]	1960	1965
New York	15	18	22	28
Chicago	24	28	40	52
Los Angeles	17	21	21	21
Philadelphia	27	31	47	55
Detroit	29	34	43	56
Baltimore	35	38	50	61
Houston	23	23	30	34
Cleveland	29	34	46	49
Washington	55	66	78	88
St. Louis	29	36	49	60
Milwaukee	9	11	16	21
San Francisco	18	20	31	43
Boston	10	13	16	26
Dallas	19	21	26	27
New Orleans	37	41	55	63

[1] Nonwhite figures based on 1960 ratio of Negroes to total nonwhite population applied to 1965 Negro population.

Source: The pattern of allocation of Federal aid to education, a preliminary summary of findings, The Policy Institute of the Syracuse University Research Corp.

TABLE 25.—FROM PROPERTY TAX OVERLOAD SITUATIONS—HOW IT WORKED IN WISCONSIN AND MINNESOTA IN 1968

Household income group	Number of claims	Average household income	Average property tax[1]		Percent of tax burden relieved	Ratio of property tax[1] to household income (percent)	
			Before credit	After credit		Before credit	After credit
Wisconsin:							
0	102	0	$333	$151	55	---	---
$1 to $499	539	$381	254	98	61	66	26
$500 to $999	6, 508	801	211	78	63	26	10
$1,000 to $1,499	14, 903	1, 269	249	140	44	20	11
$1,500 to $1,999	16, 809	1, 750	288	188	35	16	11
$2,000 to $2,499	14, 287	2, 236	323	241	25	14	11
$2,500 to $2,999	9, 857	2, 734	363	307	15	13	11
$3,000 to $3,500	5, 576	3, 207	415	392	5	13	12
Minnesota:							
Less than $250	192	495	164	51	69	---	---
$250 to $499	198	434	145	38	74	33. 4	8. 8
$500 to $749	994	652	128	39	70	19. 6	6. 0
$750 to $999	2, 108	891	136	42	69	15. 3	4. 7
$1,000 to $1,249	2, 779	1, 132	143	72	50	12. 6	6. 4
$1,250 to $1,499	3, 666	1, 380	151	76	50	10. 9	5. 5
$1,500 to $1,749	3, 453	1, 624	160	95	41	9. 9	5. 8
$1,750 to $1,999	3, 828	1, 880	167	100	40	8. 9	5. 3
$2,000 to $2,249	3, 115	2, 122	179	125	30	8. 4	5. 9
$2,250 to $2,499	2, 879	2, 375	182	127	30	7. 7	5. 3
$2,500 to $2,749	2, 403	2, 717	190	151	21	7. 0	5. 6
$2,750 to $2,999	2, 189	2, 875	194	155	20	6. 7	5. 4
$3,000 to $3,249	1, 488	3, 124	200	179	10	6. 4	5. 7
$3,250 to $3,499	1, 270	3, 368	215	193	6	6. 4	5. 7

[1] Includes property tax portion of rent payments.

Sources: Wisconsin Department of Revenue Research Division, July 28, 1970. Minnesota Department of Taxation, Property Tax Relief for Minnesota's Senior Citizens (special report) August 1970.

TABLE 26. DIFFERENCES IN FAMILY TAX BURDENS

DISTRIBUTION OF STATE-LOCAL TAX BURDENS RELATIVE TO FAMILY INCOME SIZE 50 STATES AND ALL-STATE AVERAGE, 1968 [1]

[Tax burdens as percentages of income]

State	Adjusted gross income, family of 4, 1968													
	$3,500		$5,000		$7,500		$10,000		$17,500		$25,000		$50,000	
	Percent	Rank	Percent	Rank	Percent	Rank	Percent	Rank	Percent	Rank	Percent	Rank	Percent	Rank
All States	12.8		10.9		9.4		8.7		6.5		6.5		5.4	
Alabama	10.7	42	8.8	44	7.8	40	7.5	39	5.8	36	5.7	36	4.5	38
Alaska	12.1	32	10.5	30	9.2	29	8.5	29	6.4	28	6.5	27	6.4	12
Arizona	14.5	15	12.6	10	10.8	9	9.8	10	7.4	11	7.7	8	7.3	4
Arkansas	10.4	44	8.9	43	7.7	42	7.1	42	5.6	40	5.7	37	4.8	35
California	12.1	33	9.8	34	8.3	37	7.9	35	6.3	30	6.9	22	6.6	8
Colorado	12.7	24	11.1	21	9.8	18	9.3	18	7.2	15	7.7	9	6.6	9
Connecticut	14.6	12	11.7	15	9.5	21	8.2	30	5.9	35	5.6	39	4.4	40
Delaware	10.9	37	9.1	39	8.2	38	8.2	31	7.1	18	7.5	12	6.2	13
Florida	15.0	10	12.2	13	10.0	16	8.7	26	6.0	34	5.8	35	4.6	37
Georgia	13.7	18	11.2	20	9.5	22	8.8	23	7.2	16	7.6	11	5.5	22
Hawaii	9.7	48	9.8	35	9.6	20	9.8	11	7.5	8	7.7	10	6.8	6
Idaho	11.9	34	10.8	27	9.1	31	8.8	24	7.0	21	7.4	15	5.9	15
Illinois	14.6	13	11.7	16	9.5	23	8.2	32	5.6	41	5.1	41	3.9	43
Indiana	15.4	6	13.1	5	11.2	4	10.1	8	7.5	9	7.3	16	5.7	18
Iowa	15.0	11	13.2	4	12.0	3	11.1	3	8.0	6	8.0	6	6.0	14
Kansas	15.5	5	12.7	9	9.3	26	9.6	13	7.3	14	7.3	17	5.7	19
Kentucky	12.4	28	10.9	26	10.6	11	10.4	5	7.9	6	7.8	7	5.9	16
Louisiana	9.7	49	8.3	48	6.7	49	6.3	47	4.5	46	4.9	43	5.2	26
Maine	16.6	1	13.7	2	11.0	7	9.6	14	6.7	25	6.3	30	4.9	33
Maryland	14.6	14	13.0	7	12.5	1	12.6	1	9.4	1	9.7	2	7.8	3
Massachusetts [1]	14.3	16	12.1	14	11.2	5	10.3	6	7.6	7	7.5	13	5.5	23
Michigan	12.9	22	11.1	22	9.5	24	8.9	22	6.9	24	6.8	24	5.2	27
Minnesota	12.2	30	11.3	18	10.8	10	10.7	4	8.4	3	8.7	4	6.8	7
Mississippi	15.2	8	12.3	12	10.4	15	9.8	12	7.4	12	7.3	18	5.7	20
Missouri	12.8	23	11.0	25	9.4	25	8.7	27	6.4	29	6.4	29	4.9	34
Montana	10.8	40	9.1	40	8.1	39	7.7	37	6.3	31	6.3	31	4.8	36
Nebraska	15.1	9	12.6	11	10.5	12	9.5	16	7.5	10	6.9	23	5.8	17
Nevada	10.7	43	8.7	46	7.0	47	6.1	48	4.3	49	4.1	48	3.3	48
New Hampshire	13.5	19	10.8	28	8.7	34	7.5	40	5.3	42	5.0	42	3.7	46
New Jersey[1]	16.3	3	13.4	3	10.9	8	9.6	15	6.7	26	6.5	28	5.2	28
New Mexico	12.2	31	10.4	31	9.0	32	8.1	33	5.8	37	5.7	38	5.0	32
New York	13.2	21	11.5	17	10.5	13	10.2	7	8.3	4	9.7	3	9.8	1
North Carolina	10.4	45	9.3	38	8.8	33	8.8	25	7.0	22	7.5	41	7.3	5

North Dakota	13.3	20	11.1	23	9.2	30	8.5	29	7.4	13	8.1	5	6.5	11
Ohio	10.9	38	9.1	41	7.6	43	6.8	44	4.8	44	4.7	45	3.9	44
Oklahoma	12.3	29	10.2	33	8.4	35	7.7	38	5.7	38	6.0	33	5.2	29
Oregon	10.9	39	9.7	36	9.3	27	9.2	20	7.1	19	7.3	19	5.6	21
Pennsylvania	15.4	7	13.0	8	11.1	6	9.9	9	7.0	23	6.7	25	5.2	30
Rhode Island	16.4	2	13.1	6	10.5	14	9.1	21	6.5	27	6.0	34	4.5	39
South Carolina	9.8	47	8.3	49	7.4	46	7.1	42	6.1	32	6.6	26	5.3	24
South Dakota	13.9	17	11.3	19	9.3	28	8.1	34	5.7	39	5.4	40	4.3	41
Tennessee	12.5	27	10.3	32	8.4	36	7.4	41	5.0	43	4.9	44	4.0	42
Texas	11.3	36	9.1	42	7.5	44	6.5	46	4.6	45	4.5	46	3.7	47
Utah	12.7	25	10.8	29	9.7	19	9.3	19	7.2	17	7.0	21	5.3	25
Vermont	12.7	26	11.1	24	9.9	17	9.4	17	7.1	20	7.3	20	6.6	10
Virginia	10.1	46	8.8	45	7.8	41	7.8	36	6.1	33	6.2	32	5.1	31
Washington	11.7	35	9.4	37	7.5	45	6.5	46	4.4	47	4.1	49	3.1	50
West Virginia	9.4	50	7.8	50	6.6	50	5.9	50	4.4	48	4.3	47	3.8	45
Wisconsin	15.7	4	13.8	1	12.5	2	12.2	2	9.3	2	9.9	1	8.2	2
Wyoming	10.8	41	8.7	47	7.0	48	7.0	48	4.3	50	4.1	50	3.3	49

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[1] Massachusetts and New Jersey rely on property tax. No State income tax in New Jersey.

The percentage of total state-local property tax with an initial impact on business has decreased from an estimated 45.1 percent in 1957 to an estimated 39.2 percent in 1967 (Table 27). As states have raised additional taxes during the ten year period 1957–67, they have turned to taxes on persons and non-business property (Table 28). In short, property taxes are irrational as well as regressive. Districts can have high educational expenditures and low taxes if they have several large businesses within their borders.

Pioneering efforts are taking place in Wisconsin and Minnesota in the use of an income tax credit-tax rebate, referred to as a "circuit breaker" technique, to protect individuals and families from extreme property tax burdens. The concept provides property tax relief when the tax exceeds a given percentage of household income (Table 25). Present programs deal with both elderly renters and homeowners. Three states provide benefits to elderly renters while one state restricts its program to elderly homeowners. It will hopefully only be a matter of time until the extraordinary residential tax burden of the poor is also included in "circuit breaker" tax programs. Increased usage of the "circuit breaker" concept by the states could have the affect of easing the opposition of the elderly and the poor to increases in property taxes that have been necessary to finance the needs of the schools. This could be particularly beneficial where there are high concentrations of the elderly and the poor in the central cities.

TABLE 27.—RELATIONSHIP OF STATE AND LOCAL PROPERTY TAXES WITH AN INITIAL IMPACT ON BUSINESS TO TOTAL STATE AND LOCAL PROPERTY TAXES, BY STATES, 1957, 1962, AND 1967

[Dollar amounts in millions]

States	1957 estimated business property taxes			1962 estimated business property taxes			1967 estimated business property taxes		
	Total property taxes	Initial impact amount	As percent of total property taxes	Total property taxes	Initial impact amount	As percent of total property taxes	Total property taxes	Initial impact amount	As percent of total property taxes
United States	$12, 864. 1	$5, 807. 8	45. 1	$19, 054. 6	$8, 156. 2	42. 8	$26, 047. 2	$10, 217. 8	39. 2
Alabama	64. 7	31. 9	49. 3	88. 6	42. 1	47. 5	120. 2	50. 6	42. 1
Alaska	[1] (29. 8)	(2)	(2)	12. 0	6. 3	52. 5	21. 2	7. 9	37. 4
Arizona	84. 9	44. 9	52. 9	156. 6	78. 9	50. 4	238. 4	103. 7	43. 5
Arkansas	47. 3	21. 7	45. 9	72. 0	28. 9	40. 1	102. 4	34. 5	33. 7
California	1, 563. 8	759. 1	48. 5	2, 579. 6	1, 117. 6	43. 3	4, 005. 3	1, 626. 1	40. 6
Colorado	159. 6	71. 3	44. 7	226. 9	97. 1	42. 8	310. 6	130. 2	41. 9
Connecticut	231. 1	91. 4	39. 5	366. 5	136. 6	37. 3	511. 2	163. 7	32. 0
Delaware	14. 1	4. 3	30. 5	23. 0	7. 7	33. 5	35. 2	8. 9	25. 3
District of Columbia	52. 8	25. 2	47. 7	67. 8	31. 3	46. 2	93. 0	41. 3	44. 4
Florida	236. 2	128. 6	54. 4	436. 8	200. 0	45. 8	654. 1	220. 7	33. 7
Georgia	136. 2	68. 5	50. 3	199. 7	102. 3	51. 2	321. 5	140. 6	43. 7
Hawaii	[1] (16. 0)	(2)	(2)	27. 8	9. 5	34. 2	61. 0	18. 0	29. 5
Idaho	50. 4	24. 1	47. 8	66. 2	32. 0	48. 3	75. 4	41. 6	55. 2
Illinois	895. 7	378. 7	42. 3	1, 315. 6	504. 2	38. 3	1, 588. 3	555. 2	35. 0
Indiana	350. 7	163. 4	46. 6	534. 8	252. 0	47. 1	712. 4	297. 7	41. 8
Iowa	239. 2	80. 2	33. 5	360. 9	119. 7	33. 2	463. 2	134. 1	29. 0
Kansas	213. 8	88. 7	41. 5	290. 8	118. 2	40. 6	360. 5	134. 9	37. 4
Kentucky	118. 5	49. 0	41. 5	141. 4	63. 1	44. 6	182. 2	58. 5	32. 1
Louisiana	108. 5	82. 0	75. 6	148. 0	114. 9	77. 6	196. 5	150. 4	76. 5
Maine	70. 3	30. 4	43. 2	104. 2	39. 8	38. 2	122. 8	52. 1	42. 4
Maryland	196. 1	77. 6	39. 6	297. 5	117. 2	39. 4	483. 0	180. 4	37. 3
Massachusetts	590. 3	206. 5	35. 0	861. 7	281. 3	32. 6	1, 038. 9	302. 1	29. 1
Michigan	644. 1	338. 5	52. 6	935. 0	478. 1	51. 1	1, 190. 4	522. 7	43. 9
Minnesota	310. 6	140. 2	45. 1	476. 7	205. 6	43. 1	623. 4	250. 6	40. 2
Mississippi	64. 4	39. 0	60. 6	94. 6	60. 5	64. 0	127. 7	69. 2	55. 0
Missouri	245. 7	102. 1	41. 6	348. 9	135. 4	38. 8	490. 0	183. 0	37. 3
Montana	73. 5	37. 1	50. 5	92. 0	45. 9	49. 9	119. 2	54. 5	45. 7
Nebraska	140. 8	34. 9	25. 5	190. 9	45. 5	23. 8	281. 8	59. 2	21. 0
Nevada	21. 7	13. 3	61. 3	31. 1	16. 3	52. 4	66. 4	33. 2	50. 0
New Hampshire	54. 7	24. 0	43. 9	70. 8	20. 6	37. 1	112. 1	37. 6	33. 5
New Jersey	634. 3	278. 5	43. 9	975. 6	370. 3	38. 0	1, 275. 6	362. 5	28. 4
New Mexico	30. 0	18. 2	60. 7	47. 1	29. 6	62. 8	61. 2	31. 9	52. 1
New York	1, 775. 4	776. 9	43. 2	2, 418. 1	1, 048. 5	43. 4	3, 318. 5	1, 408. 3	42. 4

TABLE 27.—RELATIONSHIP OF STATE AND LOCAL PROPERTY TAXES WITH AN INITIAL IMPACT ON BUSINESS TO TOTAL STATE AND LOCAL PROPERTY TAXES, BY STATES, 1957, 1962, AND 1967—Continued

[Dollar amounts in millions]

States	1957 estimated business property taxes			1962 estimated business property taxes			1967 estimated business property taxes		
	Total property taxes	Initial impact amount	As percent of total property taxes	Total property taxes	Initial impact amount	As percent of total property taxes	Total property taxes	Initial impact amount	As percent of total property taxes
North Carolina	134.8	63.5	47.1	206.0	85.9	41.7	298.4	113.8	38.1
North Dakota	56.9	17.4	30.6	71.3	20.6	28.9	91.0	25.2	27.7
Ohio	673.9	333.2	49.4	1,023.7	505.5	50.4	1,351.0	625.7	46.3
Oklahoma	105.2	55.8	53.0	142.9	70.1	49.1	206.7	98.3	47.6
Oregon	148.3	73.9	49.8	198.2	85.5	43.3	299.7	123.0	41.0
Pennsylvania	592.9	192.3	32.4	810.4	249.0	30.7	1,089.2	303.3	27.8
Rhode Island	65.6	24.7	37.7	90.3	30.8	34.1	121.6	40.2	33.1
South Carolina	56.6	32.4	57.2	80.4	44.8	55.7	108.3	65.8	60.8
South Dakota	65.6	14.2	21.6	88.8	20.1	22.6	114.6	27.2	23.7
Tennessee	116.8	48.4	41.4	175.8	71.9	40.9	240.5	95.1	39.5
Texas	581.0	349.2	60.1	838.8	492.5	58.7	1,121.8	573.1	51.1
Utah	59.9	36.2	60.4	90.5	50.8	56.1	123.9	63.3	51.1
Vermont	29.2	11.5	39.4	41.6	17.0	40.9	53.7	21.1	39.3
Virginia	152.7	56.6	37.1	223.9	82.8	37.0	321.6	107.6	33.5
Washington	152.2	63.9	42.0	234.4	92.5	39.5	341.3	127.3	37.3
West Virginia	55.9	28.1	50.3	83.4	34.7	41.6	106.7	50.6	47.4
Wisconsin	367.0	166.8	45.4	541.9	200.4	37.0	632.9	251.5	39.7
Wyoming	31.2	18.5	59.3	43.8	25.2	57.5	60.4	39.7	65.7

[1] Data for period prior to Statehood, and not included in national total.
[2] Data not available.

Source: Estimates prepared by ACIR staff from data published by the Governments Division, U.S. Bureau of the Census, and U.S. Department of Agriculture.

TABLE 28.—RELATIONSHIP OF STATE AND LOCAL TAXES WITH AN INITIAL IMPACT ON BUSINESS TO TOTAL STATE AND LOCAL TAXES, BY STATE, 1957, 1962, AND 1967

[Dollar amounts in millions]

States	Total State and local taxes			State and local taxes on business[1]			Taxes on business as percent of total taxes			
	1957	1962	1967	1957	1962	1967	1957	1962	1967	Percent change 1957–67
United States	$28,645.1	$41,554.2	$61,000.3	$9,791.7	$13,329.9	$17,853.4	34.2	32.1	29.3	−13.6
Alabama	314.8	436.7	677.4	82.8	106.7	154.6	26.0	24.4	22.8	−12.3
Alaska	(2)	52.4	85.8	(2)	16.1	23.5	(2)	30.7	27.4	(2)
Arizona	182.6	328.0	523.7	59.7	98.5	139.4	32.7	30.0	26.6	−18.7
Arkansas	177.5	254.8	392.5	47.3	58.6	82.1	26.6	23.0	20.9	−21.4
California	3,304.0	5,142.9	7,785.2	1,082.7	1,637.5	2,391.0	32.8	31.8	30.7	−6.4
Colorado	313.2	475.7	677.7	98.2	148.1	190.8	31.4	31.1	28.2	−10.2
Connecticut	460.8	684.0	982.6	150.4	234.3	308.2	32.6	34.3	31.4	−3.7
Delaware	58.6	112.3	177.6	16.3	34.3	51.2	27.8	30.5	28.8	+3.6
District of Columbia	142.7	183.0	274.9	44.3	55.0	78.7	31.0	30.1	28.6	−7.7
Florida	663.3	1,061.3	1,623.1	214.9	330.3	416.0	32.4	31.1	25.6	−21.0
Georgia	467.9	627.4	1,025.0	118.7	167.4	256.3	25.4	26.7	25.0	−1.6
Hawaii	(2)	175.8	300.5	(2)	30.1	48.0	(2)	17.3	16.0	(2)
Idaho	99.8	136.4	205.2	34.4	46.0	62.2	34.5	33.7	30.3	−12.2
Illinois	1,723.7	2,461.9	3,249.6	516.4	683.4	804.2	30.0	27.8	24.7	−17.7
Indiana	635.3	951.1	1,471.3	236.5	363.5	399.2	37.2	38.2	27.1	−27.2
Iowa	487.6	638.3	918.9	96.8	139.9	170.0	19.9	21.9	18.5	−7.0
Kansas	367.4	518.6	717.1	109.3	149.3	185.7	29.7	28.8	25.9	−12.8
Kentucky	323.1	466.8	674.2	92.9	111.7	136.4	28.9	23.8	20.2	−30.1
Louisiana	497.2	655.1	958.8	238.8	348.9	488.8	48.0	53.3	51.0	+6.3
Maine	140.0	197.3	253.2	40.5	51.6	63.4	28.9	26.2	25.0	−13.5
Maryland	460.2	713.8	1,172.4	132.3	189.3	291.9	28.7	26.5	24.9	−13.2
Massachusetts	1,041.9	1,422.7	2,004.2	341.2	440.6	530.5	33.6	31.0	26.5	−21.1
Michigan	1,319.9	1,896.2	2,715.2	490.9	655.5	838.1	35.3	34.6	30.9	−12.5
Minnesota	597.9	868.6	1,356.4	237.6	311.4	409.3	39.7	35.9	32.6	−17.9
Mississippi	233.5	316.8	461.3	75.9	104.7	128.3	32.5	33.0	27.8	−14.5
Missouri	551.2	818.6	1,198.9	158.0	219.7	285.9	28.7	26.8	23.8	−17.1
Montana	125.4	162.1	212.8	48.6	60.7	76.4	38.8	37.4	35.9	−7.5
Oklahoma	344.7	458.1	629.1	117.5	141.9	200.5	34.0	31.0	31.0	----------
Oregon	347.9	417.9	631.3	123.2	144.0	201.8	35.4	34.5	32.0	−9.6
Pennsylvania	1,796.8	2,335.6	3,241.8	676.3	689.3	915.6	38.2	29.5	28.2	−26.2
Rhode Island	129.7	188.7	266.9	43.1	53.8	75.5	33.2	28.5	28.3	−14.8
South Carolina	244.8	330.6	510.8	69.6	89.2	147.3	28.4	27.0	28.8	+1.4
South Dakota	112.2	152.2	204.5	20.8	29.4	38.6	18.5	19.3	18.9	+2.2
Tennessee	402.8	528.3	820.7	106.8	143.8	210.4	26.5	27.2	25.6	−3.4
Texas	1,253.3	1,850.8	2,471.2	652.6	836.7	982.5	52.1	45.2	39.8	−23.6
Utah	136.3	205.1	299.6	52.1	69.1	86.9	38.2	33.7	29.0	−24.1

See footnotes on following page.

TABLE 28.—RELATIONSHIP OF STATE AND LOCAL TAXES WITH AN INITIAL IMPACT ON BUSINESS TO TOTAL STATE AND LOCAL TAXES, BY STATE, 1957, 1962, AND 1967—Continued

[Dollar amounts in millions]

States	Total State and local taxes			State and local taxes on business			Taxes on business as percent of total taxes			
	1957	1962	1967	1957	1962	1967	1957	1962	1967	Percent change 1957–67
Vermont	64.5	92.1	133.6	17.3	24.1	32.2	26.8	26.2	24.0	−10.4
Virginia	423.0	623.5	1,070.7	157.5	213.5	285.0	37.2	37.2	26.6	−28.5
Washington	511.8	759.6	1,108.6	156.4	225.0	313.9	30.6	30.6	28.3	−7.5
West Virginia	218.9	306.4	400.4	90.8	110.6	145.1	41.5	41.6	36.2	−12.8
Wisconsin	706.6	974.6	1,517.6	250.5	291.1	407.6	35.5	35.5	26.9	−24.2
Wyoming	60.3	82.0	110.3	24.3	29.0	44.2	40.3	40.3	40.1	−.5

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[1] Excluding unemployment compensation.

[2] Data not available

Source: Estimates prepared by ACIR staff from data published by the Governments Division, U.S. Bureau of the Census, and U.S. Department of Agriculture. Report to Governor's Minnesota Property Tax Study Advisory Committee, Rolland F. Hatfield, director; Minnesota State Planning Agency, St. Paul, Minn., 1970.

State Aid Programs

Programs of state aid to local school districts have caused the resulting financial structure to be compromises of accommodation in three primary areas: (1) a continuation in some form and in some amount of the long-standing and traditional flat grant per pupil; (2) an attempt at an equilization program that is historically substantially underfinanced; and (3) the desire in some localities to finance truly superior public schools. In most states, the Foundation plan ended up providing the poorest district with funds sufficient to finance a basic educational program at a level well below that which many school districts willingly supported. Wealthy school districts, measured by either income or real property, have usually been provided with enough authority to exceed the minimum foundation plan level without unduly straining local resources. Recent years have seen a strong trend toward the so-called "equalizing grant" method of distribution of state aid and it now accounts for approximately 70 percent of the total state aid distributed (Table 29).

TABLE 29.—ESTIMATED AMOUNT AND PERCENT OF STATE GRANTS DISTRIBUTED FOR PUBLIC SCHOOL PURPOSES, BY PURPOSE AND METHOD OF DISTRIBUTION

Purpose and method of distribution	1953–54	1957–58	1962–63[1]	1966–67
Amount in millions:				
All purposes	2, 980	4, 516	6, 539	9, 645
Flat	1, 572	1, 892	2, 506	2, 970
Equalizing	1, 408	2, 625	4, 033	6, 675
General purpose	2, 407	3, 712	5, 806	8, 174
Flat	1, 185	1, 386	2, 027	1, 928
Equalizing	1, 222	2, 326	3, 779	6, 246
Special purpose	573	815	733	1, 471
Flat	388	576	479	1, 042
Equalizing	185	299	254	429
Percent distribution:				
All purposes	100. 0	100. 0	100. 0	100. 0
Flat	52. 8	41. 9	38. 3	30. 8
Equalizing	47. 2	58. 1	61. 7	69. 2
General purpose	80. 8	82. 2	88. 8	84. 7
Flat	39. 8	30. 7	31. 0	20. 0
Equalizing	41. 0	51. 5	57. 8	64. 7
Special purpose	19. 2	18. 0	11. 2	15. 3
Flat	13. 0	11. 4	7. 3	10. 8
Equalizing	6. 2	6. 6	3. 9	4. 4

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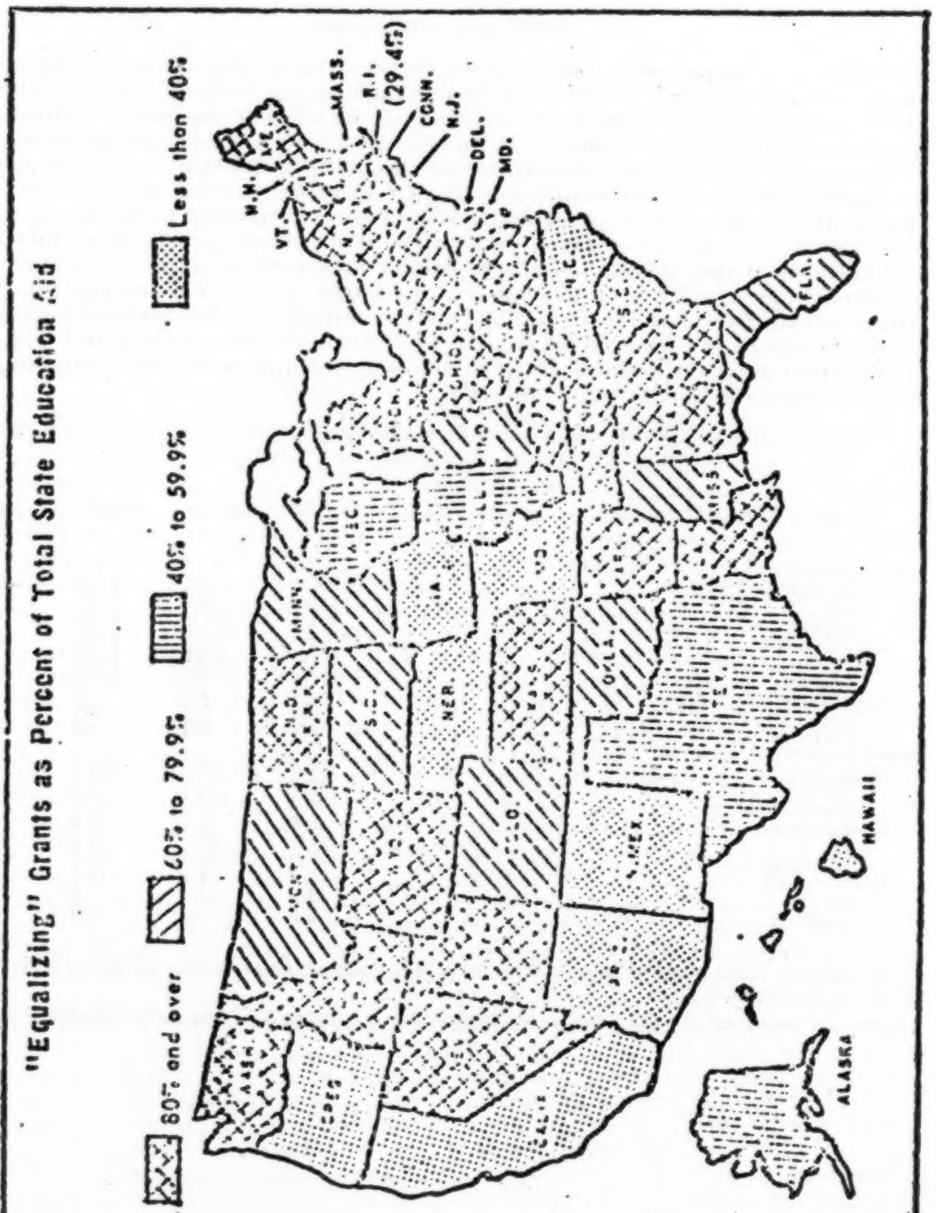
[1] Not including Tennessee where about $120,000,000 of State grants were predominantly for general purposes and distributed on an equalizing basis.

Source: U.S. Department of Health, Education, and Welfare, Office of Education, State Programs of Public School Support.

MOST STATE AID IS "EQUALIZING"



"Equalizing" Grants as Percent of Total State Education Aid

60% and over
60% to 79.9%
40% to 59.9%
Less than 40%
MASS.
R.I.
(29.4%)
CONN.
N.J.
DEL.
MD.
VT.
N.H.
ME.
N.C.
S.C.
FLA.
MINN.
IA.
NEB.
S.D.
N.D.
MONT.
WYO.
COLO.
N.MEX.
OKLA.
TEX.
OREG.
CALIF.
HAWAII
ALASKA

The practice most widely followed in equalization grant state aid is for the state aid to local districts to bear an inverse relationship to the resources of the local district. However, to prevent this theory from becoming totally operable, most states place a ceiling on state equalization support. The further this ceiling is from meeting the actual educational needs in the poor districts of the state, the more it inhibits true equalization. The fact that the measure of local district financial capacity in most states is an equalized property value only compounds and retards the possibility of such state aid programs achieving equalization. For instance, cities may have high per pupil property values but also considerable non-education municipal expenses. At best, most state aid equalization programs have helped to establish a minimum education program throughout the state—that is available to all students regardless of the fiscal ability of their local school district. At the same time these programs of "equalization" have provided opportunities for wealthy districts, whether the wealth is created by location of real property or high personal income, to supplement the minimum program to the extent they desire from their own local fiscal resources.

The variation in equalized property per student is enormous within the states. This fact, coupled with the ceiling on state equalization grants, has caused differences of per pupil expenditure among districts within a given state to vary by multiples of two or three in some instances. An additional comment on this situation is that all too often the district spending the lower amount for education is very often exceeding, in tax effort per $1,000 of personal income, the effort made by the district that is supporting education at the upper extremity of per pupil expenditures.

INCREASED STATE ASSUMPTION

Various methods have been proposed to increase the equity of educational finance systems. One method would be to simply provide sufficient funding in present state aid formulas, with elimination of ceiling limitations, so that the poorer districts will in fact receive a proportion of state aid that reflects their low property valuation and also their actual educational needs. Another procedure would be to use something other than the real property of a district as both the measure of wealth and also as the revenue source of local funds for the district (e.g., income.) States have been deterred from complete equalization because of the huge costs. If business property was taken off the local tax base and shifted to a statewide tax, states could better afford to equalize residential property differences among districts without complete state assumption of all school costs.

Perhaps the most sweeping suggestion being discussed in the area of increased state funding for public elementary and secondary education is that of "full state funding." Such a proposition would eliminate many of the problems associated with the present dependence by the school district on the property tax as its local source of revenue. Although a statewide property tax to support education would not eliminate many of the problems inherent in the property tax as an equitable revenue source, it would eliminate the enormous variance in real property valuation per pupil now present among the districts of each state (that is used as a measure of the districts' wealth and as its source of local revenue). A strong case can be made for a fully state-funded program of state aid to use as its revenue source a progressive state income tax rather than the regressive property tax.

One of the goals of the full state aid program would be the elimination of the great disparity found among districts under present systems. *Present programs have resulted in the highest expenditures for education to be found in districts of high socio-economic status* rather than where the educational need is the greatest or where the educational costs are the most excessive. A program of allocation of all educational finances from a state source could help eliminate these obvious inequalities.

Whether full state funding is the best funding plan to employ or whether the problems that it would resolve should be taken care of by other means is not the important issue. *The question is whether a program of federal aid could lay down conditions for receipt or incentives for additional funds in order to encourage states to develop more equitable systems of distribution of state aids.* It would appear that because of very slow progress toward more equitable aid programs in many of the states, the time and method are most appropriate for action by the federal government. A larger state share of total educational expenditures would also help dampen the inflation discussed earlier. Under the present financing system there is continuous pressure for many districts to reach the level of the highest expenditure—wealthy districts in the state (e.g., Great Neck, Winnetka, etc.). Increased state assumption and state salary schedules will moderate this tendency to emulate the high salaries of the wealthiest suburbs.

Referendum are more significant for education policy than other areas of public policy. A 1960 survey of school referendum concluded the fewer the voters who turned out (0–30%), the greater the chance the bond or tax measure would pass. Turnout in the middle range (31–60%) was associated with more failures than successes, while highest turnout (over 60%), found equal outcomes. Fortunately, for education turnouts have traditionally been low. Recent Gallup Poll data indicates voters' informational maps about what their schools are doing are very incomplete, just as their normative maps about what schools should do are missing.

The obvious hypotheses are that the higher the tax increases sought, the more regularly will it be defeated. Table 30, drawn from two recent years of California tax elections, supports this view.

TABLE 30.—TAX INCREASE SIZE AND ELECTION SUCCESS IN CALIFORNIA SCHOOL DISTRICTS, 1966–68

Tax size	1966–67 N	1966–67 Percent won	1967–68 N	1967–68 Percent won	Both N	Both Percent won
Lower	2	50	4	100	6	83
Same	26	96	25	96	51	96
Increase	181	42	93	59	274	47
1 to 20 cents	17	47	17	53	34	50
21 to 40 cents	60	42	28	68	88	50
41 to 60 cents	64	48	21	57	85	51
61 to 80 cents	21	33	14	64	35	46
81 cents	19	21	13	46	32	31
Total	209	48	122	68	331	56

Source: Calculated from data provided in California Department of Education, "Tax Rate Increase Elections," 1966–67 and 1967–68 (Sacramento: Bureau of School Apportionment and Reports).

We do not wish to make too much out of limited data in a single state, but Californian's had a quite high tolerance of large tax increases. In 1966–67 and 1967–68 increases in the range of 1¢ to 80¢ in tax increases had as good as or better chance of success, thereafter stiff resistance set in. Recently, however, turnouts have been increasing and tax raises voted down.

Our cost-revenue analysis in the prior sections indicates the necessity for referendum on tax increases will, at best, not let up and probably even accelerate. As costs outrun revenue, schools will have to face the voters at even shorter intervals. Moreover, there is significant evidence that the lessened support for referendum in recent years has become a nationwide problem. The following table shows that regardless of whether a ⅔ majority was required, bond approvals peaked in 1965 and then sharply declined (Table 31). We could provide a state by state table showing this alarming pattern emerging dramatically in every region, subregion, and indeed almost every state. The decline is particularly sharp in the North Central and South. It does make a difference in every region whether the majority required is 50% or higher, but except for the West, the difference is not impressive.

TABLE 31.—STATE AND MEDIAN REGIONAL DIFFERENCES IN SUCCESSFUL BOND ELECTIONS BY APPROVAL VOTE REQUIRED, 1961–69[1]

	1961	1962	1963	1964	1965	1966	1967	1968	Total
North east[2]	83.3	91.7	88.9	80.0	81.3	70.9	81.8	75.0	81.5
Do	82.9	98.0	82.3	100.0	81.6	80.9	88.5	65.9	82.6
North central[2]	66.7	60.9	57.7	68.0	66.7	62.0	60.7	52.9	61.5
Do	67.3	65.8	66.9	69.2	75.3	56.3	60.8	48.2	66.3
South[2]	80.0	86.1	56.2	82.7	78.8	37.7	63.7	73.5	81.4
Do	100.0	89.2	93.0	88.2	82.5	75.9	66.7	59.7	85.3
West[2]	67.3	65.3	67.6	65.1	65.0	50.5	66.7	75.0	66.0
Do	78.6	82.1	90.5	82.1	100.0	83.3	69.0	88.9	82.7
Total[2]	68.7	70.6	67.6	74.6	80.0	62.0	67.1	57.2	-------
Do	81.1	83.3	85.1	86.3	80.0	75.0	66.7	65.1	-------

[1] Source: "Bond Sales for Public School Purposes," U.S. Office of Education annual reports (Washington, D.C.: National Center for Educational Statistics). The total approval based on the par value of issues was even lower than the figures above based on percent of elections approved: In 1969 only 43.6% of the par value in dollars were approved. In each year the per cent approved based on par values was lower than the figures in table 31.

[2] States with extraordinary majority required, mostly ⅔ needed.

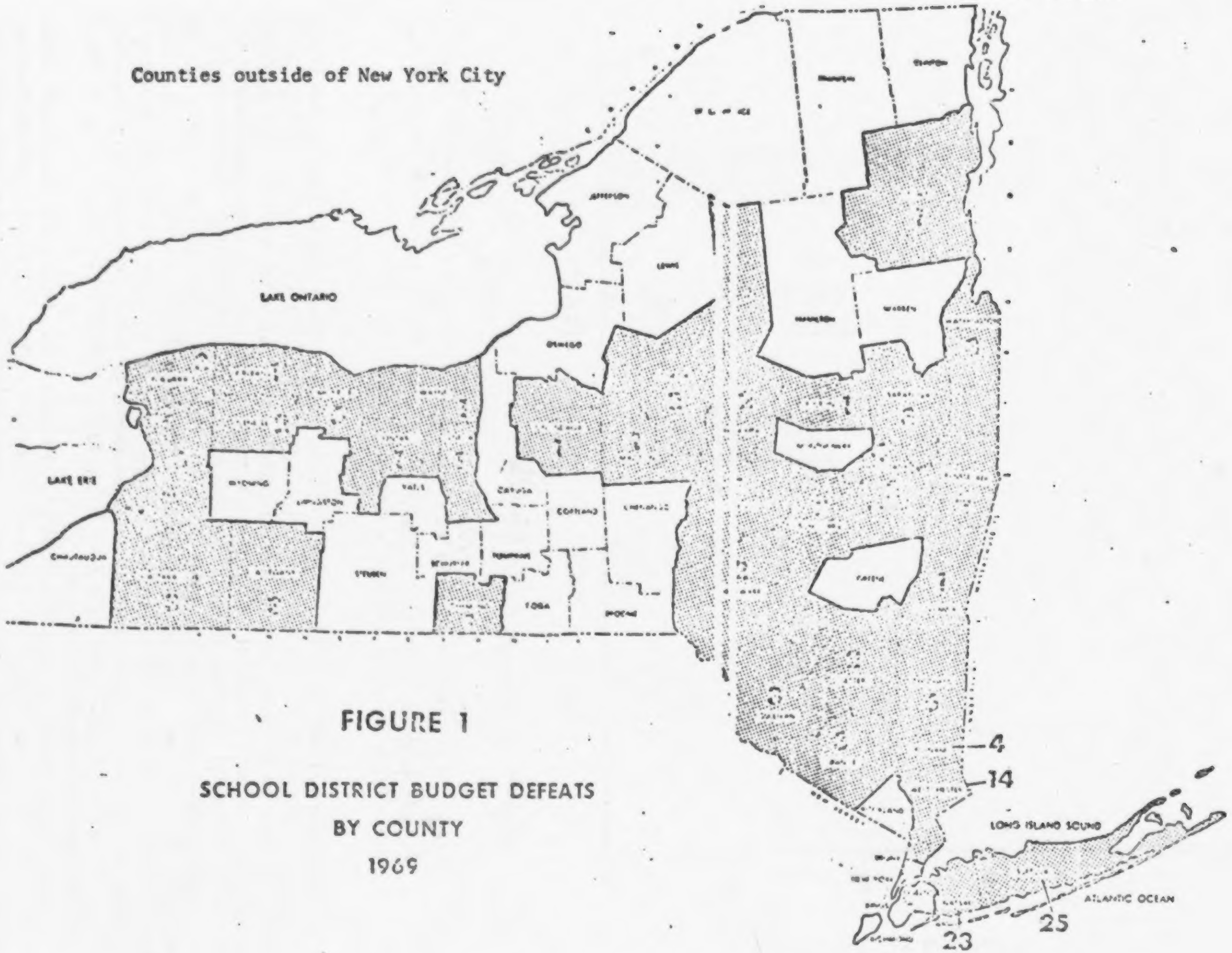
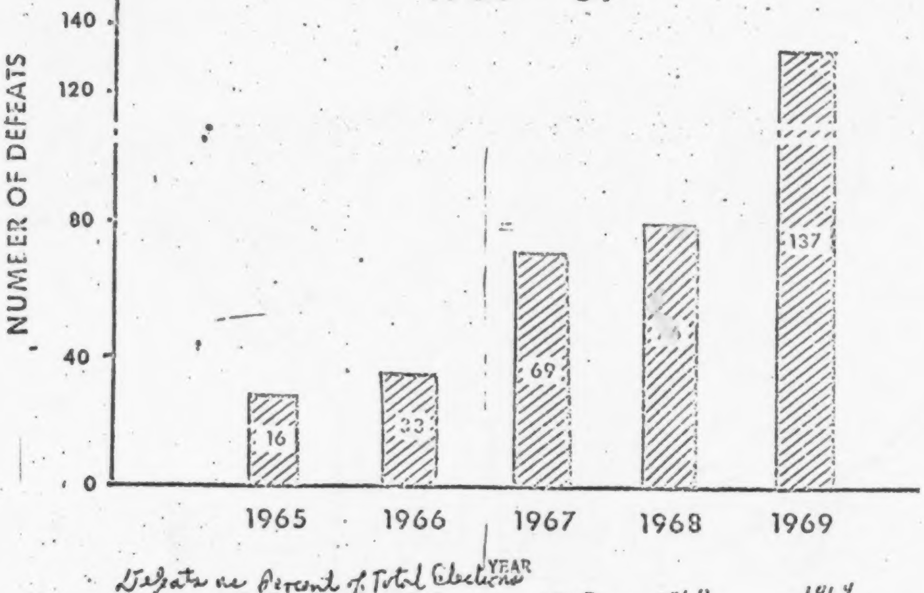

Counties outside of New York City
LAKE ONTARIO
LAKE ERIE
CAYUGA
CORTLAND
TIOGA
LONG ISLAND SOUND
ATLANTIC OCEAN
4
14
23
25

FIGURE 1

SCHOOL DISTRICT BUDGET DEFEATS
BY COUNTY
1969

FIGURE 2
SCHOOL DISTRICT BUDGET DEFEATS
1965 – 69



Defeats as Percent of Total Elections

1965	1966	1967	1968	1969
2%	4%	9%	10%	20%

Source: N. Y. State Department of Education. Totals for 1970 indicate a substantial increase in state aid led to a dramatic decline in these local budget defeats (in the 60-70 range)

An intensive study of tax election defeats in New York State shows the trend in graphic terms. Note the big jump in defeats in 1969 (Figure 2). While local taxes in New York have been increasing sharply because of welfare and medical programs, voting on school budgets is virtually the only remaining chance for the electorate to express direct control over public spending. Moreover, it is the high educational effort school districts that are absorbing the bulk of the defeats. Defeats are closely associated with school tax burden, whether that burden takes the form of a currently high rate or as one which has increased rapidly in the recent past. This finding is ominous when one considers the cost-revenue trends by 1975 are likely to force many districts in the nation to show a several year trend of stiff increases.[1]

A new York State Department study revealed the following kinds of items tend to be cut from budgets when tax referendum are defeated: guidance counselors, psychological services, elementary and high school foreign languages, and some extra-curricular activities.

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[1] According to the Investment Bankers Association, voters last year approved only 48% of the school bond issues put before them; in 1965, the approval rate was 77%, and in 1960 it was 89%.

Referendums on increasing property tax levies to meet school operating costs have met a similar fate. In Ohio, for instance, only 29% of such issues were okayed at the polls last year, down from 84% in 1960. In Illinois the approval figure plunged to 44% from 72% in that same period.

Moreover, a survey of all New York districts (including ones where the budget was passed) shows a net reduction of professional positions during the 1969-70 school year. Cutbacks were particularly notable in professional staff to improve instruction for the disadvantaged and handicapped. Urban areas in several states have been particularly hard hit on staff reductions because they are losing pupils, and consequently are penalized in the state aid formulas based on average Daily Attendance. An ominous trend in urban areas is for administrative reductions *based on seniority* to fall primarily on recently elevated minority supervisors. As Table 32 indicates, any hopes that increased federal and state funds would relieve the local tax burden have been shattered by the failure of outside money to increase.

TABLE 32.—REVENUE RECEIVED FROM FEDERAL, STATE, AND LOCAL SOURCES FOR PUBLIC ELEMENTARY AND SECONDARY SCHOOLS (By Percentage)

	Federal sources	State sources	Local sources
School year:			
1957–58	4.0	39.4	56.6
1959–60	4.4	39.1	56.5
1961–62	4.3	38.7	56.9
1963–64	4.4	39.3	56.4
1965–66	7.9	39.1	53.0
1966–67	7.9	39.1	53.0
1967–68	8.0	39.3	52.7
1968–69	7.3	40.7	52.0
1969–70	7.2	40.9	51.8
1970–71	6.9	41.1	52.0

Source: Committee on Educational Finance, National Education Association.

INPUT-OUTPUT RELATIONSHIPS IN PUBLIC EDUCATION

While the above part outlines the bleak financial situation, it does not analyze the impact of either long term declining financial resources or incremental federal financial assistance to prevent such deterioration. Indeed, there is not enough solid evidence on either of these points to support categorical statements. The best one can do is to examine the evidence we have and make best guesses on input-output relationships in education.

The simplified cost-quality studies in the early 1950's did not take into account the student's capabilities prior to entry into school, or the type of experiences he participated in outside of school. This lack of control for pupil background and environment jeopardized their conclusion that districts which spent more dollars per pupil were most effective in terms of pupil attainment. Given the advantaged socio-economic environment from which the children in Winnetka and Scarsdale come, it would be surprising indeed if such high expenditure schools did not produce high pupil attainment.

The above studies were followed by a number of sociological surveys that demonstrated student achievement is tied very tightly to his socio-economic status (Coleman report). The principal conclusions of this tight relationship have been challenged on several methodological grounds and the verdict is now very much in doubt.[1] The studies that have emphasized, or overemphasized, the influence of social environment at the expense of school services, if taken on their face, have the effect of discounting the significance of schooling. At the other extreme, the cost-quality study has frequently been construed to mean that schools can solve the problem of low pupil attainment—if only we spend just a bit more money. Ideally, we could make an assessment of the "value added" nature of schooling. That is, we should like to determine what a student "knew" when he completed school, and how much of the *difference* was the unique contribution of the school. The controls necessary for such a study are impossible to implement. Instead, we must settle for a review of research that has avoided the failings of past efforts and comes closest to the "true" effects of schools upon student performance. It must be remembered that schools do not occupy the entire span of even the most ardent student's time. Whatever schools do to enhance this comprehension depends in a very major way upon the student's ability to perceive, store, process, and respond to a wide variety of environmental inputs.

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[1] A major criticism is that the Coleman report measures of socio-economic conditions and school services are highly interrelated and do not meet the criterion of independence.

The inability to construct a unified theory of instruction has deterred the identification of effective school service components. For instance, we are beginning to know moderately well the neurological and psychological mechanisms which interact to enable one to read. What we are just beginning to investigate is the means by which we can intervene in and manipulate those processes in order to make readers out of particular individuals. Moreover, measures of educational output tend to be narrow such as a single performance criterion (e.g. students' scores on various kinds of standardized achievement tests). Despite such handicaps an increasing body of sophisticated research is accumulating on the effectiveness of various school service components.

An inspection of these disgested results by Guthrie and Levin demonstrates that there is a substantial degree of consistency in the studies' findings.

"The strongest findings by far are those which relate to the number and quality of the professional staff, particularly teachers. Fourteen of the studies we reviewed found teacher characteristics, such as verbal ability, amount of experience, salary level, amount and type of academic preparation, degree level, and employment status (tenured or non-tenured) to be significantly associated with one or more measures of pupil performance. In order for school staff to have an effect upon students, however, it is necessary that students have some access to such persons. And, indeed, we also found that student performance was related to some degree to contact frequency with or proximity to professional staff * * *."

This synthesis of studies concluded schools can have an effect that is independent of the child's social environment. In short, school service components have been identified as being capable of "making a difference" in what happens in school. These components include items such as ability of instructional staff and adequacy of instructional materials. The achievement of high quality on each of these service dimensions costs money.

This does not mean we can predict in a linear fashion the marginal increase in educational attainment (however measured) from an increment of federal funds.[1] Indeed, the continuous pressure for teacher salary increases may mean incremental dollars will be consumed by across the board salary raises rather than more pupil contact with high quality teachers. As Alexander Mood observes in his summary paper to a recent USOE Conference, "Do Teachers Make A Difference?"

"We can only make the not very useful observation that at the present moment we cannot make any sort of meaningful quantitative estimate of the effect of teachers on student achievement. Many investigators believe that teachers may be the most important factor in educational achievement for most children and are at worst second only to parents. That belief rests largely on judgment and it may well be true; unfortunately it does not give us any clue as to how it operates and without that it is not of much use to policy formulation or administrative practice."

Many classroom observers have stressed that teacher-pupil "rapport" evidenced by such things as love and imagination are more important than raw verbal ability of the teachers. In short, only now are the research techniques becoming sophisticated enough to provide firm recommendations for policy makers. The measures used in prior studies were crude. Whatever matters about a teacher probably is not measured by age, years of experience, or a simple verbal test.

Given the state of the art on input-output studies, it may be most useful to approach the current financial crisis by speculating on what might happen if the public schools experience slow but unremitting financial cutbacks or if costs continue to rise with relatively slight budget increases. Since the voter trend data presented earlier indicates severe cutbacks have just emerged, recently we have only preliminary indications. In New York a survey by the State Department indicated such things as foreign languages, music, and compensatory education were the first to feel the axe. (Bailey can supply some figures here.) In Los Angeles, the cuts came in a reduced school day that meant less teacher-pupil contact in the instructional setting. Cuts in instructional materials were prevalent in both New York and California.

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[1] For a pioneering attempt at this using teacher verbal ability as a predictor, see Henry Levin, "Cost Effectiveness Analysis and Educational Policy—Profusion, Confusion, and Promise," R & D Memo No. 41, School of Education, Stanford, California.

It is our judgment that the cutbacks caused by lack of funds will be concentrated in certain school service components—components that preliminary studies indicate are among the most effective. The collective organization of teachers makes it unlikely that reductions will be absorbed by teacher compensation. Teacher wage rates have at least kept pace with the inflation rate. Recent increases in Chicago of 8% per year were considerably above the current annual inflation rate. The collective strength of teacher organizations is still on the upswing and we can foresee no force to weaken their pressure for increasing their financial position. Nationally teachers' salaries make up 60% of the total school budget. Insulating this area from cuts or priority decisions means other school service components must feel a magnified impact.

Another area that will most likely escape the axe is the welfare component, especially school breakfast and lunch. Recent federal legislation broadening the school lunch act will stimulate increased expenditures in this area, especially for needy children. School health programs are likely to see more emphasis rather than less in the future. The high public value attached to athletics and extracurricular activities indicates cuts in these will be used primarily as a way to generate community support for the next tax election.

It appears to us that the main cuts will be concentrated on (1) libraries and instructional materials, (2) foreign languages, music and after school special instructional programs, and (3) reduction of teacher-pupil contact hours (shorter school day) and less senior (e.g., minority) administrators. The cut in instructional materials will come at the very time better instructional packages will become available. In effect, education will become more expensive in terms of salaries but the teachers will have less instructional software to work with. Both teacher-pupil contact hours (including special after school programs) and instructional materials have appeared in several studies as school service components that can "make a difference."

Trends in public school politics do not seem to be providing either sufficient financial support for the schools or a boost for cost effective determination of priorities. As in other areas of public expenditures the political exigencies will probably not permit "tight budgets" to result in a more rational allocation of resources. Certainly one role for USOE in this financial predicament is to point out the expenditure choices states and localities have which will exert the least likely negative impact on educational attainment. Another responsibility is to insure that the quality of public education is not eroded slowly by cost-revenue imbalances. This raises the question directly of whether it is necessary or even possible to wait for new R & D methods that "work" before increasing federal aid. We believe the answer is no.

Our lack of knowledge about cost-quality relationships indicates the oversimplified argument that cost cutting is the answer to educational finance is a risky policy. We simply do not know the effects of alternative cost cutting schemes on educational attainment or quality. It is better not to pretend we do know the impact of cost reduction than merely to assume certain beneficial outcomes or that a lot of fat is in existing budgets. Given the strong public support for low pupil-teacher ratios, little budget publicity remains. The only way to incur large swings is to trim the number of personnel.

The Federal Role in Education Under Present Policies

THE EVOLVING FEDERAL ROLE

The federal role in education grew dramatically in the mid-sixties around a series of categorical aid programs. One estimate of federal programs with an impact on education notes 170 grant-in-aid in 21 different departments and agencies operating through 92,000 units of government throughout the fifty states. This remarkable disorder arose because of a lack of clear Federal policy for education. As James observed:

"Besieged with so many advocates of courses of action, Congress seems simply to have thrown up its hands and appropriated money for supporting any good idea that could be advanced throughout the vast educational establishment, in the general hope that ways can be devised to exploit any breakthrough that is achieved, and to promote any line of experimentation that holds promise."

The Federal role has consistently, however, been a force to improve the techniques for assessing our educational output (e.g., National Assessment) and in improving its efficiency. Beyond this, federal goals have been scattered in several different directions with not enough funds devoted to any single objective to have much impact. Moreover, the overall federal budget impact has declined from a high of 8% of total 1966 expenditures at all levels of education (including college) to 5% in 1969. Several years of declining budgets (especially when one considers inflation) has caused erosion of the federal stimulus. Many local school systems have made program adjustments in order to receive their present level of federal funds. Further changes will require additional stimulation given the trend of state and local resources which appear inadequate to even maintain the existing system.

The federal government has relied to a considerable extent on a welter of guidelines and regulations to help the categorical programs meet the target. These categorical programs reflect priorities from different time periods in American politics. The range is from 1920 vocational education needs, to the NDEA Sputnik era, the Korean War impacted aid, and the more recent concern with "innovation" and the disadvantaged. Over the years, programs have been piled on top of one another and the categories have hardened. Rarely do the programs reinforce each other in a given state or LEA. For instance, it is difficult to find any example of where a city links EPDA teacher training to a Title I program that is supplemented by Title III and NDEA. Various federal categorical programs operate in relative isolation spread around the city and seldom concentrate in one school and/or its feeder system. Many critics stress there is no federal strategy to link the categorical aid programs with the R & D efforts carried on through the Cooperative Research Act.

The reliance on detailed guidelines and regulations for the aid programs has not proven to be sufficient leverage to insure the funds hit the target. It is impossible to write explicit guidelines which are applicable to more than 19,000 school districts, and exceedingly difficult to enforce them once they are written. The multitude of categories has hindered comprehensive planning at the state level and encouraged state categorical coordinators who talk primarily to their federal categorical counterparts.

The federal guidelines and regulations are inputs into 50 diverse state political systems, and what policies emerge reflect the very different political actors and patterns in Texas, for example, as compared to California. Recent studies comparing federal aid distribution in six states indicates the paterns among the states are very diverse and depend to a significant extent on historic state political bargains and tradition. The federal guidelines can control the outcome of these political systems only when they are very detailed (and explicit) and are backed up by a clearly perceived willingness to cut off funds for violations. This kind of federal muscle seems to run counter to the "New Federalism." On the other hand, friendly persuasion among federal-state-local professional colleagues has proven to have grave limitations.

In brief, the current Administration strategy for federal aid appears to be this: (1) American education is not nearly as effective as it could be, (2) present Federal programs are not well designed to make it better, (3) we need to find more effective instructional methods through research and experimentation, (4) after we find out "what works" we will increase federal educational resources. In the interim we can consolidate some categories and cut down the "red tape." The dispute seems to center on the last point—timing of increasing federal aid.

THE DISTRIBUTION OF FEDERAL AID: WHO WINS, WHO LOSES

It is important to sketch out the probable federal role in the next few years if this Administration strategy continues. First, with respect to its grant-in-aid programs several things seem clear. A recent study by the Syracuse University Research Corporation examines federal aid impact in 573 school districts located in five urbanized states—California, New York, Michigan, Massachusetts, Texas.* The sample (FY 1965–FY 1968) was weighted toward the larger school systems. The programs studied account for 80% of federal appropriations to elementary/secondary education and include:

(1) Title I, II, and II of ESEA
(2) Title III of NDEA, Title U-A of NDEA

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*Most of the following is lifted verbatim from the SURC report.

(3) Vocational education
(4) School lunch and mills
(5) Impacted areas

The amounts of federal aid tend to be extremely small, both in absolute terms—$21 to $50 per pupil—and in comparison with total revenues for education range from 3% to 10%.

STATEWIDE AVERAGE PER PUPIL REVENUES FROM MAJOR FEDERAL EDUCATIONAL AID PROGRAMS, COMPARED WITH TOTAL REVENUES

State	Total Federal aid	Total revenue	Federal aid as percent of total revenue
California	$39. 01	$729. 70	5. 3
New York	33. 59	1, 003. 45	3. 3
Texas	50. 34	476. 43	10. 5
Michigan	21. 36	667. 10	3. 2
Massachusetts	38. 88	662. 91	5. 8
Average	36. 58	710. 92	5. 2

The effect of the leveling and decline of federal aid is exemplified by its operations on Title I. In 1968–69 school year, cutbacks of $68 million combined with the growing costs of education resulted in $400 million less for disadvantaged pupils in the local schools that year than was available in the first year of the program. In addition, the growth in the number of eligible pupils—both because of changes in the federal eligibility formulas and because many cities have experienced marked increases in the number of AFDC pupils—has made for a sharp decline in funds available per Title I pupil. In New York State, Title I funds per poverty eligible pupil had declined to little more than half, from $365.64 to $200.10 in the four years of Title I operation.

COMPARATIVE BASIC DATA ON TITLE I, ESEA ALLOCATIONS IN NEW YORK STATE, FISCAL YEAR 1966–69

	Maximum basic grant	State allocation	Proration factor	Average net current expense	Prorated per pupil	Total number of poverty eligibles
Fiscal year—						
1966	$109, 666, 770	$109, 666, 770	1. 00	365. 64	365. 64	299, 962
1967	159, 451, 297	111, 691, 007	. 70	393. 14	273. 95	405, 584
1968	195, 227, 704	115, 776, 356	. 59	416. 70	247. 05	468, 629
1969	265, 610, 797	113, 600, 524	. 43	467. 88	200. 10	567, 706

When school districts are confident of steadily rising amounts of aid, these Federal programs are likely to become an integral part of the total educational planning of administrators and school board members. However, where aid varies markedly from year to year, educational planners are handicapped by uncertainty as they develop next year's academic program, contract for facilities and equipment, and hire additional staff. During the years covered by this study federal aid reaching school districts has differed from year to year and has followed no discernible pattern as illustrated by this New York data.

TABLE 33.—NEW YORK STATE CENTRAL CITY AVERAGE PER PUPIL REVENUES FROM MAJOR FEDERAL EDUCATIONAL AID PROGRAMS, 1965–68

	1965	1966	1967	1968
New York	$7. 10	$31. 48	$79. 22	$39. 89
Buffalo	3. 81	38. 63	70. 06	52. 18
Rochester	5. 24	28. 15	110. 19	98. 82
Albany-Schenectady-Troy	15. 97	49. 46	44. 45	73. 18
Syracuse	5. 39	29. 91	64. 37	74. 58
Utica-Rome	47. 67	67. 80	89. 04	70. 67
Binghamton	5. 45	11. 53	32. 35	23. 55

Not only is federal support declining and fluctuating but it is also not channeling educational resources to where the needs are greatest—or offsetting the inequities of state and local finance patterns. One of the most consistent patterns of impact is that school districts in non-metropolitan areas, largely rural and school town in character, get more federal aid than do metropolitan areas. In California, Texas, and Michigan non-metropolitan areas receive an average 50% more aid per pupil than do the metropolitan areas. The major exception is New York City with its high concentration of AFDC in Title I (see Table on p. 65).

Examination of aid distribution within metropolitan areas—between central cities and suburbs reveals that federal aid is insufficient to overcome the suburban advantage in locally raised revenues and state aid.

In short, federal aid has done little to close the wide gap in revenues available to education between high cost cities and their suburbs (see Table 34, p. 66).

METROPOLITAN AND NONMETROPOLITAN AVERAGE PER PUPIL REVENUES FROM MAJOR FEDERAL EDUCATIONAL AID PROGRAMS, COMPARED WITH TOTAL REVENUES

State	Federal aid	Total revenues	Federal aid as percent of total revenue
California:			
Metropolitan	36.35	729.70	5.1
Nonmetropolitan	53.68	640.60	8.4
New York:			
Metropolitan	34.84	1,023.45	3.4
Nonmetropolitan	30.51	922.46	3.3
Texas:			
Metropolitan	41.58	476.43	8.7
Nonmetropolitan	63.38	535.59	11.8
Michigan:			
Metropolitan	18.17	677.10	2.7
Nonmetropolitan	28.00	629.62	4.8
Massachusetts:			
Metropoitan	38.58	662.91	5.8
Nonmetropolitan	(1)	(1)	(1)

[1] Not available.

TABLE 34.—CENTRAL CITY AND OUTSIDE CENTRAL CITY AVERAGE PER PUPIL REVENUES FROM MAJOR FEDERAL EDUCATIONAL AID PROGRAMS COMPARED WITH TOTAL REVENUES

State	Federal aid	Total revenues	Federal aid as percent of total revenue
California:			
Central City	39.46	684.10	5.8
Outside Central City	39.54	816.94	4.8
Nonmetropolitan	53.68	640.60	8.4
New York:			
Central City	67.66	876.06	7.7
Outside Central City	31.03	1,036.81	3.0
Nonmetropolitan	30.51	922.46	3.3
Texas:			
Central City	37.71	479.37	7.9
Outside Central City	35.88	484.64	7.4
Nonmetropolitan	63.38	535.59	11.8
Michigan:			
Central City	28.73	682.96	4.2
Outside Central City	16.60	665.76	2.5
Nonmetropolitan	28.00	629.62	4.8
Massachusetts:			
Central City	69.00	675.01	10.2
Outside Central City	37.83	778.65	4.8
Nonmetropolitan	(1)	(1)	(1)

[1] Not available.

Federal aid is also not very effective in enhancing an equitable distribution on a number of other indicators. The SURC study defined equity in terms of the relationship of federal aid to some rough measures of economic, social, educational and fiscal need. The findings indicate that:

(1) federal aid tends to be mildly equalizing, but that within some metropolitan areas a distinctly dis-equalizing phenomenon exists.

(2) the degree of equilization is usually too small to offset pre-existing disparities among school districts.

(3) a number of individual federal programs operate to help the rich districts get richer.

Correlations of revenue from major federal programs with median family income in districts of metropolitan areas

California	—.27
New York	—.31
Texas	—.67
Michigan	—.17
Massachusetts	—.30

When individual federal aid programs are examined, the mild overall equalization effect disappears except for Title I of ESEA as this example from the New York metropolitan area demonstrates.

SCHOOL DISTRICTS

	Great Neck (high)	Huntington (moderately high)	Hicksville (moderately low)	Bellport (low)	New York City (central city)
Median family income	14,451	8,988	7,908	6,237	6,091
Federal programs:					
ESEA I	4.66	22.60	1.62	26.44	67.78
ESEA II	1.26	2.40	2.33	1.80	1.78
ESEA III	11.51	2.22	0	1.35	1.59
NDEA III	.32	1.45	1.64	6.36	1.05
NDEA VA	0	0	.36	.70	.34
Public Law 874	0	2.22	3.41	29.23	0
Vocational education	.62	2.04	.75	.10	.57
Lunch and milk	3.86	5.86	4.07	5.71	4.99
Total less ESEA I	17.57	16.19	12.56	45.25	10.32
Total	22.23	38.79	14.18	71.69	78.10

Given our analysis in Section I on the inequities of state aid programs, the relationship between federal and state aid is of great interest. If federal aid were offsetting and redirecting inequitable state aid priorities and patterns, we would find a significant negative correlation between state and federal aid. For the five states in the sample this did not occur.

Correlations of federal revenue with state aid to school districts in metropolitan areas

California	.07
New York	—.18
Texas	.29
Michigan	—.08
Massachusetts	.06

This finding is especially disconcerting when one considers the difference in favor of districts outside the central city in the sample.

STATE AID PER PUPIL FOR METROPOLITAN AREAS, 1967[1]

State	Total	Central city	Outside central city	Difference in favor outside central city
New York	$475.20	$392.90	$485.88	$92.98
California	271.65	250.73	274.06	23.33
Texas	206.21	183.01	210.48	27.47
Michigan	263.06	227.88	268.41	40.53
Massachusetts	118.41	223.07	114.93	−108.14

[1] Unweighted average of state metropolitan areas.

THE TREND IN FEDERAL AID

One important factor in understanding the impact of revenue is the pattern of aid over time and its effects on educational policy. When school districts are confident of steadily rising amounts of aid, those aid programs are likely to become an integral part of the total educational planning of administrators and school board members. However, where aid varies markedly from year to year, educational planners are handicapped by uncertainty as they develop next year's academic program, contract for facilities and equipment, and hire additional staff.

During the years covered by our study, federal aid reaching school districts has differed from year to year and has followed no discernible pattern. While all the states and metropolitan areas in the sample show increased per pupil aid for the four-year period, in the last year of the period almost half the districts in metropolitan areas reported an actual decrease in per pupil amounts of aid. An additional four of the areas maintained the same level of aid, and only the remaining 30 percent showed an increase. Yearly revenues reported by the major cities in New York illustrate the phenomenon (Table III–12).

TABLE III–12.—REVENUES FROM MAJOR EDUCATIONAL AID PROGRAMS FOR NEW YORK STATE CENTRAL CITIES, 1965–68 (AVERAGE PER PUPIL)

	New York	Buffalo	Rochester	Albany, Schenectady, Troy	Syracuse	Utica-Rome	Binghamton
1965	7	4	5	61	5	48	5
1966	31	39	28	49	30	68	12
1967	79	79	110	44	64	89	32
1968	40	52	99	73	75	71	24

In sum, federal aid has an equalizing effect—although not as great as one would expect given the size of Title I in the total. It tends to work in favor of at least one target group that has been identified with significant educational disadvantage—nonwhite Americans. While some equalization takes place, it may not exist for a certain metropolitan area or across income categories. Grantsmanship, and special situations often enter in to moderate the effects of formula grant programs. Indeed, other than Title I the categorical programs were not designed by federal policy makers with equity considerations in the forefront. Finally, the relatively small percentage that federal aid contributes to total educational revenue makes federal aid a weak lever for changing or redirecting priorities. The amount of federal aid is not commensurate with the task. The flow of funds under state plans (excludes Title I) raises grave questions about the probable state distribution of no strings attached federal funds under revenue sharing.

THE IMPACT OF PRESENT FEDERAL POLICY IN THE 70'S

The above analysis indicates the present federal policy will not deal with the growing fiscal crisis in public education or provide federal resources to areas of greatest need. It will have a negligible impact on the issue of financial equity. It will provide little incentive for changing state and local revenue systems that furnish 93¢ of every educational dollar.

The impact on R & D is less predictable. We do not know how long it will take us to find out "what works." The National Institute of Education and experimental schools are still largely on paper and the basic research could take decades. We know the development phase requires enormous amounts of money. It is difficult to predict how much until we know the instructional concepts that deserve intensive development. If there is to be a massive effort to find and test new methods in education, the outlines of such a strategy are only beginning to take shape. If school systems under intensive fiscal pressure are to wait for this, their financial base is likely to undergo severe erosion. The R & D strategy will, in essence, help a drowning man as soon as the experts find out why he is swimming so poorly. Discovering "what works" in education is a continuous process and search—no answer can suffice for all time or be applied uniformly across this diverse nation.

New Directions in the Federal Role

EQUITY AND CHOICE

We believe the public elementary/secondary schools need federal funds to maintain the present quality of American schools. These additional funds should also provide greater equity. We cannot produce any studies or data that will guarantee these federal funds will move us dramatically forward. However, we do feel they are needed to keep us from moving backwards. Looking at the sudden outpouring of polemic literature on the schools, one might even assume that students were learning less than they used to. However, the available evidence demonstrates that although schools in deteriorating neighborhoods are showing declines in pupil attainment, the average American child does somewhat better on standardized achievement tests than he did a few years ago. Our aspirations for education have changed—and rightly so. But we must be careful that these aspirations do not deflect us from letting the limited gains to date erode.

Along with this stance for more resources (that are equitably distributed) we believe new initiatives are needed to enhance *choices* in education. We will not attempt to discuss all possible good things to do in this area. For instance, the administration is already pursuing a program of experimental schools and a redirected R & D strategy through the NIE. Our role will be to suggest new inititiatives worthy of consideration.

ALTERNATIVES TO ENHANCE EQUITABLE FINANCING

We will discuss four alternatives for channeling funds to the areas of greatest need: (1) revenue sharing, (2) an urban education act, (3) a revised impacted areas program, (4) grant consolidation. All of these options will be analyzed in terms of their potential for insuring federal funds are *additive* to state and local funds and provide *incentives*.

The Administration's major domestic initiative for dealing with state and local finances is revenue sharing. We cannot be sure of the exact formula although the major changes from the 1967 bill appear to be increasing the total amount of money and the local pass-through share from 30% to 50%. At this point it would be helpful to review briefly the formula and particularly its treatment of education.

The administration proposal divided the monies among the states by a formula based upon population adjusted for the state's relative effort to raise revenue. States and localities could choose to use a "pass through" formula to insure each city and county would receive a part of the funds in proportion to their relative size and revenue-raising effort within the state. (For details of the 1969 local pass through formula, see Appendix A.) The 1971 bill had a new condition that state and local governments must get together and figure out their own system for splitting up the shared revenues or else lose 10% of them.

In the Administration bills one of the key comprises was that school districts—along with special districts such as those which provide water and irrigation services—were deliberately left off the list of political subdivisons which would share *directly* in the grants. Wiedenbaum said this limitation was the most important compromise reached at a 1969 meeting of state and local government officials. Moreover, the tax effort for education will count toward increasing a local units share of the localities pie *only* if the LEA is fiscally dependent. It was expected independent school districts would seek a larger state share of educational revenues.[1] Finally, the Administration bill had no earmarks for any categories. Education was left to bring its case to the mayor and the governors office for a share of the federal revenues. Indeed, the bill's architects thought their design would be useful in mitigating the historic political isolation of education from general government. It did not discuss the probability that mayors would be most likely to use the money for municipal employee pay raises (or for tax reduction) rather than education. If one views this outcome as likely a better alternative would be to divide the dollars raised by general revenue sharing among the special revenue sharing categories.

The alternative bill to the Administration's, devised by ACIR, would have the States set aside for local school purposes an amount equivalent to the proportion that the taxes raised by independent school district taxes. There is nothing in the bill, however, that would prevent a State from targeting aid to needy areas such as cities. While revenue raised by independent school districts varies widely from State to State, the amount of funds designated for public support comes to 16% of the total on a nation-wide basis.

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[1] Press reports indicate the administration's 1971 bill will count revenues raised by such special districts as schools.

The reaction of the education professional organizations to revenue sharing was equivocal and no coherent strategy was seriously considered. The NEA did not support the Administration bill because it did not provide enough money to poor states such as Kentucky and Mississippi. The Education Commission of the States did not take a position but expressed general support to the overall revenue sharing concept. The ACIR had earmarked funds for education in hopes of rallying the school lobby behind the bill, but to no avail. The school lobby concentrated on adding increments to Great Society categorical programs in direct opposition to the Administration.

A continuation of this stance by professional educators is dangerous, especially in view of the strong support for revenue sharing by mayors and governors. The threat made by these public officials goes like this: "If the educators oppose revenue sharing then they better not come around the next year and ask state and local governments for more money to support education. We will tell them we don't have the money, and where were the education lobbies when revenue sharing was debated."

In short, the Commissioner needs to lead in the sense of informing the professional community about the economic and political implications of revenue sharing for them. If part of the design is to end the isolation of school districts from general government by excluding the revenue raised by independent school districts, then the Commissioner needs to speak to this issue. State and local government officials already resent education's view that it should have first call on their treasuries. A bruising fight between educators and general government officials could only heighten this tension. A mayor might rightfully charge education is moving him off the property tax base (see p. 17 for Table 12), but will not help with revenue sharing to open up an alternative revenue source. The state legislators are confronted with curtailed school years and teacher strikes as a pressure tactic for more state aid. While such tactics may have short run payoff, the long run alienation is dangerous if the growth in federal aid is to be through general revenue sharing.[1]

The Family Assistance Plan also has important implications for the overall fiscal situation of the schools. If the Federal government takes over most of the welfare burden from the states, then state government might be more willing to take on an increased share of the education budgets. In effect, the states could trade a "winning" expenditure item for a big "loser" in the public's view. This brings us directly to a consideration of education incentives in a revenue sharing bill (or in a separate bill if federal welfare assumption is likely).

It is unlikely that a revenue sharing bill will emerge from Congress devoid of any earmarks or incentive schemes for particular functions like education. When and if the bargaining start USOE should have in mind some preferred options. The discussion below is designed to indicate such options in terms of revenue sharing's potential for speeding up

(1) state assumption of education costs and targeting of federal funds to areas of greatest need;
(2) incentives for a more equitable property tax;
(3) incentives for increased state and local effort in education.

Our discussion under grant consolidation will deal with other types of incentives (including compensatory education).

Revenue sharing is a good vehicle for stimulating change in financing of education because of the ability to give greater weight to certain types of revenue. For example, if one wants to stimulate increased state assumption he need only count state dollars for education twice as much as local dollars. With a different objective (less regressivity) in mind the Douglas Commission suggested that State income tax collections be given double weight in calculating the State tax effort factor in any revenue sharing plan.

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[1] We believe it is naive to assume education will get 40% of the revenue-sharing dollars. This marginal money will often get to the projects most useful to a mayor's re-election—urban renewal, model cities, housing, or welfare relief. The 40% estimate is based on the average share, not the marginal needs.

A more drastic way to stimulate state assumption is to reimburse states who exceed the national average state elementary and secondary school revenue as a percent of state personal income. The national percentage is 2.1% and Table 35 reveals the winning states if one reimburses 50¢ on the dollar.

TABLE 35.—STATE GOVERNMENT EDUCATION OVERLOAD, 1969-70—ESTIMATED COST OF 50 PERCENT REIMBURSEMENT GRANTS

[Dollar amounts in millions]

State and region	State government revenue receipts for elementary and secondary schools, 1969–70 (from our own source)	State personal income, 1969	State elementary and secondary school receipts as percent of State personal income	Education overload	
				Total	Reimbursement grants
United States	$15, 716. 1	$744, 479	[2] 2. 1	$2, 029. 5	
New England and Mideast:					
Maine	78. 5	2, 987	2. 6	15. 8	
New Hampshire	7. 4	2, 489	. 4		
Vermont	21. 0	1, 426	1. 5		
Massachusetts	200. 0	22, 722	. 9		
Rhode Island	51. 3	3, 515	1. 5		
Connecticut	210. 0	13, 784	1. 5		
New York	2, 071. 0	1, 314	2. 5	361. 9	
New Jersey	409. 0	30, 312	1. 4		
Pennsylvania	1, 039. 4	43, 102	2. 4	132. 1	181. 0
Delaware	87. 9	2, 218	4. 0	41. 3	66. 3
Maryland	300. 9	15, 336	2. 0		20. 1
District of Columbia	143. 7	3, 768	3. 8	64. 6	32. 3
Midwest:					
Michigan	770. 0	35, 010	2. 2	34. 8	17. 4
Ohio	560. 0	40, 145	1. 4		
Indiana	360. 0	18, 868	1. 9		
Illinois	797. 6	47, 340	1. 7		
Wisconsin	256. 9	15, 376	1. 7		
Minnesota	365. 0	13, 408	2. 7	82. 6	41. 3
Iowa	167. 0	9, 870	1. 7		
Missouri	256. 0	16, 085	1. 6		
North Dakota	28. 5	1, 852	1. 5		
South Dakota	14. 5	1, 995	. 7		
Nebraska	42. 4	5, 230	. 9		
Kansas	124. 4	8, 096	1. 5		
South:					
Virginia	300. 0	15, 441	1. 9		
West Virginia	134. 5	4, 735	2. 8	35. 1	17. 6
Kentucky	235. 0	9, 202	2. 6	41. 8	20. 9
Tennessee	257. 0	11, 100	2. 3	22. 0	11. 0
North Carolina	571. 6	15, 030	3. 8	256. 0	128. 0
South Carolina	245. 0	7, 018	3. 5	47. 6	48. 8
Georgia	377. 5	14, 253	2. 6	72. 2	39. 1
Florida	608. 7	22, 396	2. 7	139. 4	67. 2
Alabama	257. 7	9, 116	2. 9	66. 3	33. 2
Mississippi	160. 0	5, 234	3. 1	52. 1	26. 0
Louisiana	331. 9	10, 413	3. 2	113. 2	56. 6
Arkansas	112. 4	4, 963	2. 3	8. 2	4. 1
Oklahoma	142. 9	7, 825	1. 9		
Texas	740. 0	36, 458	2. 0		
New Mexico	128. 2	2, 879	4. 5	67. 7	33. 8
Arizona	165. 1	5, 709	2. 9	45. 2	22. 6
West:					
Montana	45. 0	2, 172	2. 1		
Idaho	51. 0	2, 120	2. 4	6. 5	3. 2
Wyoming	18. 5	1, 073	1. 7		
Colorado	126. 0	7, 567	1. 4		
Utah	111. 6	3, 132	3. 6	45. 8	22. 9
Washington	400. 0	13, 093	3. 1	125. 0	62. 5
Oregon	97. 0	7, 261	1. 3		
Nevada	40. 5	2, 037	2. 0		
California	1, 550. 0	83, 408	1. 9		
Alaska	38. 5	1, 258	3. 1	12. 1	6. 0
Hawaii	149. 0	3, 060	4. 9	84. 7	42. 4

In order to make the plan more politically attractive, the threshold percentage could be lowered to 1.5% and the payment rate to 20¢. Still another alternative to weight the state dollars twice in the revenue sharing formula that exceed the national median state education expenditure for all states of 2.1%. Note any scheme based on the 2.1% national median helps the Southeast while a companion measure for federal assumption of welfare helps the Northeast and Midwest. The possibilities of a political combination for welfare and education are obvious.

Section I of this paper has made the case for increased state assumption of education. We content that a state which accepts the major responsibility for education funding will find it difficult to defend and perpetuate the current inequalities in educational opportunities within its borders. Moreover, the decision-making emphasis at the local district level could then shift away from financial decisions and toward educational decisions.

A related objective of federal revenue incentives could be to encourage the state to reimpose its right to tax property. A state could levy a state-wide property tax of 12 mills and distribute the proceeds without being restricted by the property tax base of any locality such as a big city. Well trained state tax assessors would be able to introduce a high degree of competence into the assessment process. The revenue sharing formula could double count property tax dollars raised at the state level.

All of these state assumption incentives would be enchanced if a second tax effort measure were added to an Administration bill—State education effort this year as compared to the previous year—thereby giving greater weight to the most recent revenue increase effort. This would also mitigate the problems caused by the historic patterns of state funding whereby states would be rewarded because in 1870 they decided on high state aid in proportion to local aid (as many Southern States did after the Civil War).[1]

If earmarks do develop for education (such as the ACIR proposal to set aside money for independent school districts), it would be wise to double weight the tax dollars raised by large cities. School districts with population over 100,000, for example, could have their tax contributions count two dollars for every dollar raised.

COMPARISON OF STATE AID AND SELECTED FEDERAL AID PROGRAMS FOR LARGE METROPOLITAN AREAS

All SMSA's with population >500,000	ESEA I	State discretionary Federal funds [1]	State aid
California:			
Central city (N=7)	$19.64	$11.44	$234.29
Outside central city (N=119)	11.09	8.92	275.78
New York:			
Central city (N=5)	53.90	13.70	372.51
Outside central city (N=73)	12.35	11.44	494.06
Texas:			
Central city (N=4)	19.67	5.73	174.26
Outside central city (N=33)	12.25	10.38	209.35
Michigan:			
Central city (N=1)	37.15	7.27	238.13
Outside central city (N=31)	7.86	5.75	271.26
Massachusetts:			
Central city (N=1)	32.33	16.84	[1] 236.00
Outside central city (N=26)	7.95	12.79	100.26

[1] ESEA II, NDEA III, VA, vocational education, lunch and milk.

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[1] This is especially true for the table 35 proposal to reward States exceeding the 2.1% level of State elementary and secondary revenue as a percent of State personal income.

COMPARISON OF STATE AID AND SELECTED FEDERAL AID PROGRAMS FOR SCHOOL DISTRICTS IN 5 LARGEST CITIES RANKED BY INCOME

School districts in 5 largest SMSA's ranked by income categories	ESEA I	State discretionary Federal funds[1]	State aid
Los Angeles:			
High ($12,000 to $8,600)	0	$3.60	$230.25
Moderately high ($8,600 to $7,400)	$6.00	7.71	242.04
Moderately low ($7,400 to $6,400)	14.39	7.86	272.63
Low ($6,400 to $6,100)	24.19	12.72	380.70
Central city ($6,896)	23.05	4.92	191.53
New York City:			
High ($17,000 to $10,500)	7.17	7.74	338.98
Moderately high ($10,500 to $8,000)	11.86	12.18	494.20
Moderately low ($8,000 to $6,500)	12.88	10.68	505.20
Low ($6,500 to $5,500)	17.12	10.83	584.55
Central city ($6,091)	68.72	8.89	329.74
Houston:			
High ($8,900 to $7,200)	2.61	9.69	201.50
Moderately high ($7,200 to $6,300)	4.03	10.34	179.03
Moderately low ($6,300 to $5,000)	7.40	9.89	167.03
Low ($5,000 to $3,700)	49.69	9.06	243.56
Central city ($5,902)	14.32	6.92	172.60
Detroit:			
High ($14,700 to $8,700)	1.70	3.07	206.68
Moderately high ($8,700 to $7,400)	6.56	6.24	261.07
Moderately low ($7,400 to $6,600)	7.52	5.45	297.90
Low ($6,600 to $5,600)	12.28	7.03	268.46
Central city ($6,069)	37.15	7.27	238.13
Boston:			
High ($9,400 to $9,000)	4.31	7.81	125.20
Moderately high ($900 to $7,300)	5.16	12.57	121.78
Moderately low ($7,300 to $6,300)	6.65	15.60	99.73
Low ($6,300 to $5,900)	14.93	10.34	118.68
Central city ($5,747)	32.33	16.84	236.08

[1] ESEA II, NDEA III, VA, vocational education, lunch, and milk.

COMPARISON OF STATE AID AND SELECTED FEDERAL AID PROGRAMS FOR SCHOOL DISTRICTS IN 5 LARGE CITIES—BASED ON PERCENTAGE OF NONWHITE POPULATION

Districts in 5 largest SMSA's ranked by racial makeup	ESEA 1	State discretionary Federal funds[1]	State aid
New York:			
(1) Majority nonwhite (>50 percent)	$36.97	$14.85	$294.74
(7) Significant minority (15 to 49 percent)	30.02	12.75	430.09
(36) Minority nonwhite (<15 percent)	10.62	10.48	523.62
Houston:			
(0) Majority nonwhite (50 percent)			
(6) Significant minority (14 to 49 percent)	10.21	11.38	193.35
(8) Minority nonwhite (15 percent)	19.31	8.35	188.49
Detroit:			
(3) Majority nonwhite (50 percent)	30.89	8.76	306.05
(2) Significant minority (15 to 49 percent)	18.30	7.03	253.58
(22) Minority nonwhite (15 percent)	5.13	5.87	272.69
Boston:			
(0) Majority nonwhite (50 percent)			
(1) Significant minority (15 to 49 percent)	32.33	16.84	236.08
(24) Minority nonwhite (15 percent)	7.99	13.09	112.19
Los Angeles:			
(2) Majority Mexican-American (50 percent)	18.46	8.42	293.95
(15) Sig. Minority Mexican-American (15 to 49 percent)	10.78	8.35	305.85
(16) Minority Mexican-American (15 percent)	5.26	7.30	232.49
(5) Majority nonwhite (M-A + B)(50 percent)	27.44	11.46	376.76
(20) Sig. minority nonwhite (15 to 49 percent)	12.26	7.92	276.13
(19) Minority nonwhite (15 percent)	6.28	7.21	236.72

[1] ESEA II, NDEA III, VA, vocational education, lunch and milk.

SOME SPECIFIC ALTERNATIVES FOR STATE AID INCENTIVE PLANS

The use of the federal leverage technique on state aid would have a number of positive effects. It would provide an opportunity for the U.S. Office of Education to identify the best or most promising practices in educational finance and provide encouragement for their adoption by federal incentive aids. The practice could also serve to provide a vital role in moving state policy makers to a decision which, although viewed as reasonable and desirable by many within a given state, is difficult to make because of the constraints and traditional patterns of the state political arena.[2] Such federal encouragement might also move states toward a program of financing education that has greater equity than most present systems, and thereby reinforce the political pressure generated by court suits based on the violation of the equal protection clause. This type of leverage or incentive program would be optional to the states and not mandatory, which would alleviate concerns of many in the states regarding federal domination, control, etc.

The following principles might be considered worthy of federal incentive aid (possibly as part of a revenue sharing formula) if implemented within state education finance plans:

(1) increased support by the state

(a) recognizing that some states provide a substantial amount of aid; most states do not adequately support public elementary and secondary education from state sources;

(b) the use of the state tax base would help to eliminate the great fiscal disparity among the districts of a given state;

(c) supports the principle that, as state created institutions, the public schools should properly expect to receive substantial financial support from state sources;

(2) Use of tax effort as the basis for determining the amount of state support

(a) this would recognize the enormous inequities caused by the present reliance on assessed valuation of real property as a measure of local district wealth in the calculation of state aid support for the district's educational program;

(3) Equal local effort (percentage of wealth within a school district spent for education) would receive equal state support in all districts in the state. This would provide for equal total dollars available for education for the same effort (Coors, Clure, Sugarman, "power equalizing" principle). This principle can be exemplified by the following table for a hypothetical formula:

Effort=percentage of district wealth for support of education.

Offering=number of dollars, combination of local and state resources, available to spend on education for a given level of effort.

Effort (could be a tax rate) and offering

Percent:	
1 (per weighted ADA pupil)	$400
1½	600
2	800
2½	1,000
3	1,200

It should be noted that in "power equalizing," and the above table, the Offering means total spendable income *regardless of what is raised by the local tax at the specific effort.* It is this "rule" of the table that is responsible for the equalizing effect, for *it commits the state to give aid in exactly the amount that local resources are insufficient, or to take away locally generated funds when there is an excess at a given level of effort.*

Under such a plan, wealthier districts would, as a rule, be required to pay some of their revenue in to a state fund in order to raise their own level of expenditure for education, and with that restriction would only be allowed to spend at a given maximum level for a specific level of effort. A district would be required to increase its effort in order to increase its level of expenditure for educational offering.

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[2] Federal aid would be preceded by $50,000 grants to states for financing studies similar to those being carried out in New York and Maryland. Such studies would compile data for each state similar to the national data in this report.

The beauty of the "power equalizing" principle is that both rich and poor districts would have the same amount of money available per student when their effort to tax themselves to support education was equal. In effect, the state would make up the difference for poor districts between the amount their tax effort generates and the offering at any tax effort level.

A number of other factors should receive Federal encouragement. One of these centers around state support for the "capital embodiment" principle proposed in *Schools and Inequality*, by Guthrie, Kleindorfer, Levin and Stout. This proposal suggests that students from low socio-economic status families should receive proportionately greater financial support for their educational programs. The goal would be to get disadvantaged pupils to a position of "capital embodiment" equality with other students at the time of high school completion. Table 36 demonstrates how the "capital embodiment" principle might be implemented:

TABLE 36.—HYPOTHETICAL STATE EXPENDITURE INDEX FOR EQUALITY OF EDUCATIONAL OPPORTUNITY [1]

Socioeconomic status level	School level		
	Preschool	Elementary	Secondary
High		1.50	2
Medium	1	2.25	3
Low	2	3.00	4

[1] "Schools and Inequality," p. 239.

This scale could be challenged on the basis that preschool and early intervention leads to higher cost/benefit results—therefore more dollars should be allotted for early years. The basic requirement of the "capital embodiment" principle is that at all levels the schools must expend greater dollars on lower SES groups in order to close the opportunity gap.

Other factors that should receive consideration in any equitable program of financing elementary and secondary education includes weighted costs for secondary and vocational programs. In addition, the weighted cost differentials of the physically, mentally, visually, emotionally and audioly handicapped students must be taken into account. Factors such as high land and buildings costs (and excessive transportation expenses) should also be calculated so that the total educational costs may be more accurately compared among the districts for state aid purposes. Urban areas would receive more dollars because of their higher labor and land costs.

Federal incentives could also be provided, along with technical assistance, in helping school districts (through state departments of education) establish fiscal information *on an individual school basis*. This type of accounting will be essential if the courts support the "equal protection" suits. In the absence of such a ruling, the information would assist school districts in their financial planning and allocation process so that rich schools do not have inordinately higher expenditures.

Undoubtedly other suggestions for development of a *model state aid program* could be added to the above list. At this time, however, it might be wise for the federal government to exert influence cautiously and in a few areas of principle rather than for a "model plan" or specific details.

The important principles that would improve state financing of public elementary and secondary education are:

(1) increased state funding as a percent of total elementary/secondary expenditures;

(2) decreased dependence on the property tax for state and local education revenue. A statewide property tax (especially on business) is preferable to the existing locally based system.

(3) link state aid to educational effort of the local district;

(4) weighted aid allocations for handicapped students, including those of low socio-economic status;

(5) adjust state aid for higher costs in urban areas.

IMPACTED AREA AID

Impacted areas lobbies have resisted Administration efforts to cut back the program for over a decade. Every year the same charade is played out. (1) The BOB recommends large cuts; (2) The HEW-USOE support these on the hill; (3) The lobbies mobilize their opposition reaching into over 350. Congressional districts; (4) The appropriation bill emerges uncut and usually with increases (including new categories of beneficiaries); (5) The President threatens to impound the increases over his budget, but backs down.

The impacted areas program is not a logical vehicle for adding equity features. Title I of ESEA was sent up as an amendment to the impacted areas but there was no programatic relationship. Impacted areas aid bears no relationship to low low income or revenue raising capability. Frequent studies have shown its rationale is outmoded and made suggestions for cutting it back. A 1970 study by Battelle Institute found the present impacted aid formula gives a few school districts less of the no-strings attached money than they deserve. Many others enjoy "unnecessary windfalls." Battelle recommended cutting the program by about $125 million and tailoring the aid formula more closely to need. The political attractiveness of impacted aid has hindered the accomplishment of tailoring it more to need, as long as the Administration couples this with substantial cutbacks. For example, the Congress has repeatedly rejected sound recommendations Battelle made to:

(1) limit eligible school districts to those suffering a federal "impact" above the national average or who show high tax effort;

(2) deny aid to wealthy school districts with a per pupil tax base more than 25% above the statewide average.

Indeed the 90th Congress added pupils from public housing to the definition of federally connected children who deserve impact aid. This move was in spite of Battelle's finding that adding public housing violated economic reasoning.

It is worth considering attempts to *add on* features to the existing impacted area program that target existing or incremental funds to LEA's with greatest need. Some of the alternatives for this are:

Objective

Turn the current general aid Impacted Areas program into a State-administered block grant for meeting critical educational needs of the 70's.

Instead of direct payments from the U.S. Office of Education to 4500 individual school districts, funds would be paid to the States in a block grant. States would be required to prepare a plan for the use of the funds in their respective states. Such plan would first take into consideration the fiscal capacity of the various school districts that had previously been "entitled" to receive P.L. 874 payments. If the State developed *objective criteria*, acceptable to the Commissioner, certifying that failure to receive Federal funds pursuant to P.L. 874 would constitute an "especially severe educational problem," the state could continue the Federal funding, in all *or* in part.[1] On the other hand, the State leadership could again on the basis of objective findings, determine that school districts receiving P.L. 874 payments had *lesser need* for them than other school districts and, upon such a finding, could make the funds available to any district within the State having greater educational and/or fiscal needs.

Funds received locally would then be used, under State guidance (and possibly under the terms of existing Federal programs) for "high priority educational objectives," as determined by the Administration. For example, the funds could be available for *any or all* of the following:

(1) compensatory education projects which, in the opinion of the State, were succeeding in their objective (or giving substantial promise) of removing educational deprivation;

(2) quality vocational education;

(3) education of the handicapped;

(4) educational programs and services for the benefit of both public and *non* public school students (consistent with the constitutional safeguards in ESEA);

(5) bilingual education, education of migrant children, or other programs for "special needs" groups.

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[1] The case of "A" entitlements, the State may not reduce local districts entitlements unless it first makes an application for same, approved by the Commissioner, on a district-by-district basis.

Philosophy

Obviously, the above represents an effort to rely upon State leadership and judgment. It is thoroughly consistent with the Nixon philosophy of block grants. It differs from revenue sharing in that it does not allow the States to spend $500–$600 million without a plan and without delineating the high priorities of that given state. This "reform proposal" is also consistent with the President's Message on Educational Reform by providing a $500–$600 million *level for educational change.* Some of the requirements sketched above could, for example, be used by the Department and OE to *help the States* make their educational finance system more progressive, at the same time that they help to identify promising educational practices, incorporate meaningful evaluation procedures, and target more closely on especially deprived groups.

Politics

The above general formulation (which I would be glad to sketch in much greater detail) makes good political sense because it fractures the hitherto monolithic educational organizations which have been successfully opposing *any* changes in the Impacted Areas program, because it appeals to "have-nots" as well as some of the most potent educational groups (e.g., vocational and handicapped), because it would attract reform-minded Congressmen, and because it is a wholly new approach to the impacted aid impasse.

Nothing has been said above about saving money from presently authorized levels. This can be done by the recommendation of certain technical amendments. However, *significant savings* can only be made by basic threats to well-entrenched educational interests. While the Budget may dictate some savings, I recommend that the Federal role be that of *making effective use of existing expenditures* (and putting a ceiling on future Federal entitlements under the program) rather than on trying to do the basically undo-able.

CONSOLIDATION OF FEDERAL AIDS

Secretary Richardson, in addressing the Chief State School Officers in November, 1970, endorsed the concepts of simplification and consolidation of federal education programs. The number of programs, with their resulting individual guidelines, constituencies and bureaucracies have turned federal aid to education into a maze that is a challenge to the most hardy local administrator.

The need for federal assistance to help finance the public elementary and secondary educational system of the nation has been amply discussed. Now is an appropriate time to rework the patchwork of past education legislation into a program that will more nearly meet the educational needs of the respective states and the nation as a whole. Consolidation of present federal programs into several broad categories that can be used to support the current educational efforts of the schools has been long discussed and should now be enacted. Submission of a comprehensive state plan could be required outlining state needs and priorities. The plan would indicate how a state intended to expend the funds to meet broad areas of national concern, or justify how the needs of these areas within a state were being met through state funds. The plan would be reviewed every two years and provide opportunity for accountability to the Congress. This comprehensive plan could be based on the required Title III *needs assessments* and several federal programs could be combined to concentrate funds on specific geographic areas of the state or programatic priorities. Annual reports could indicate the specific progress toward the objectives derived from the needs assessment.

It would seem appropriate that any such federal aid program that contained broad discretionary power for the states could also contain a number of incentive factors that would encourage states to provide more equity within their tax systems as well as more equity within their educational aid distribution system. Incentives could be arranged so as to match federal funds with state funds that are devoted to the following:

(1) enactment of a full equalization program for the distribution of state aids, including consideration of the effort factor (e.g., taxes paid as a percent of income) as a more realistic basis for equalization aid payments;

(2) provision for special educational cost problems in state aid of students from various socio-economic groups. Title I funds could match at some percent state funds earmarked for compensatory education. The list could easily be extended but it is the concept that should be established. States would receive additional amounts of aid if they established practices that provided far greater equity for taxpayers and students within their state.

(3) The consolidated category for the disadvantaged could include a payment rate at more than one-half the state or national average per pupil expenditure *if* the LEA was in a city. This could be justified on the higher costs to educate children in the city and the municipal overburden factor. A recent study demonstrated land and labor costs are high for city school districts (see pp. 32–33).

The data presented in the prior section on who benefits from federal aid alerts us to the problems of grant consolidation under Title I of ESEA. In the 50 largest cities with 21.3% of the pupil enrollment in their combined 28 states and 26.4 percent of the disadvantaged by Title I count, their receipts by program were 15.9% of Vocational Education funds, 16.2% of NDEA III, and 18.1% of ESEA II. Only under ESEA I did the 50 cities receive funds equal to their percentage.

TABLE 37.—THE EFFECT OF DIFFERING PLANS OF FUND DISTRIBUTION IN PROVIDING FEDERAL AID TO LARGE-CITY SCHOOL DISTRICTS

[Proportional with each district's total student enrollment]

Federal grant type	Fund distribution plan	Number of cities where percentage of Federal funds allocated is below or above the percentage of the State's total pupil population enrolled in city schools				
		More than 10 percent below	0 to 10 percent below	0 to 10 percent above	More than 10 percent above	Total
Vocational education	State plan	15	3	2	4	24
NDEA title III	do	15	3	1	5	24
ESEA title II	do	15	3	0	6	24
ESEA title III	Federal-local plan	10	2	0	12	24
ESEA title I	Direct-formula plan	7	0	1	16	24

Source: Data supplied by the U.S. Office of Education for the 24 largest cities in the United States, fiscal year 1967

Note the state plan programs that are likely to be the pattern under grant consolidation perform much worse than Title I on channeling funds to cities. If Title I funds are "untied" in the sense of either state plan or distribution or removing requirements for concentration in poor areas *within* LEA's, the flow of funds is likely to be closer to the pattern in other federal state plan programs.

We recommend grant consolidation preserve the concentration, comparability and targeting requirements under Title I. Moreover, we recommend each state plan formula for intra-state distribution of vocational education funds be reviewed in detail by USOE after grant consolidation takes place. A recent analysis of six states and the data presented above indicates the vocational education intra-state distribution formulas are inequitable. The only significant move toward equity in the six states surveyed (Michigan, Massachusetts, New York, California, Texas, Virginia) was mandated by the 1968 amendment earmarking 15% for the disadvantaged. Other than this, the 1968 amendments did not result in more equity despite numerous references to need in the legislation.

Grant consolidation and its concomitant comprehensive state planning give us the opportunity to stop the past practice of substituting evaluation for a more fully developed set of planning operations. We tend to search for "what works" through experimentation instead of using planning to set general objectives and thinking through some ways of reaching these objectives. Little use is made of educational planning models at the federal level. A proper student flow model would have surely advised us of the approximate date and magnitude of our present teacher surplus. When such events are forecast clearly and definitely, they are likely to stimulate thinking about policy alternatives. It would have been good if states and local authorities had planned ahead to use the slack in the teacher's market to send experienced teachers off on sabbaticals for retraining.

If it is accompanied by comprehensive planning, grant consolidation could help to end the existing abdication of planning by states to localities. As a supplement to ex post evaluation of performance, states should ask what output targets are appropriate, what is the time horizon for meeting the targets, what programs have been devised to obtain the required kinds of teaching services and assure their proper distribution into affected schools, what incentives were to be laid before professional staff and students to meet targets on time, etc.

A REVISED URBAN EDUCATION ACT

The President's Task Force on Urban Education, under the chairmanship of Wilson Riles, developed as a part of their report the framework of what they titled "An Urban Education Act." The funds were to be made available, on a competitive, application basis, first to cities over 100,000 population and ultimately other population strata. Basic criteria to be considered for awarding of grants included need, incidence of poverty, and low student performance as the most important. Other factors to be considered were unemployment, AFDC incidence, narcotics rate addiction, educational attainment of adults and others. Conditions such as full funding, concentration of funds, participation of community and groups, accountability, advance funding and phasing in of existing categorical programs were among those listed as basic criteria components of the suggested legislation.

Funding of the Urban Education Act was to provide one-third in additional educational resources to the successful grant applicant. The federal cost of the legislation was estimated at $5–6 billion for the operational grants to cities in the over 100,000 population group that would have first priority.

A number of comments might be in order regarding the proposed Urban Education Act. The first one would be that so much of it resembles the intent and operation of Title I of ESEA. In view of the Administration's stance on de-emphasizing categorical aid programs with their guidelines, and federal, state and local bureaucracies, the merits of such new legislation should be examined very carefully. It might be far more efficient to modify and expand the present Title I legislation. The SURC study demonstrates that the present Title I funds are having a significant equalizing effect for students in urban areas. New directions regarding accountability, concentration of efforts, and performance outcome will cause Title I to even more closely resemble the intent of the Urban Education Act. Even the eligibility criteria of the recommended act so nearly resemble those of Title I as to make additional legislation (unlikely at this point in the Administration) for the same group.

In sum, most of the desires suggested in the Urban Education Act might more easily be implemented by a sizable increase in the funding of Title I of ESEA and a revamping of the criteria. The need for additional funds by the urban school districts is well documented. The increase in funds under Title I would assist the urban districts in meeting their educational problems.

PROPOSALS TO ENHANCE CHOICE IN EDUCATION

INSTRUCTIONAL TV

The proposals in the prior section provide increased federal financial resources to assist in the relief of educational institutions from their revenue/cost squeeze and to enhance expenditure equity. Our proposals for added funds, however, will not likely provide alternatives to the present educational system. On the other hand, R & D programs (at their present funding levels) have had limited success in changing the operation of this massive bottom heavy system of 20,000 largely autonomous local units and 2.3 million teachers.

We believe a major R & D program should be mounted to test alternatives to the existing institutional structure that also uses a less labor intensive teaching-learning process. Such a low labor intensive delivery system would reduce the spiraling cost-revenue squeeze and also not rely on massive in-service professional retraining for reform. We believe instruction TV that is beamed directly to homes or neighborhood centers offers such a potential.

The experiments to date have used the TV set *within the confines of the school organization* and as another tool for the teacher to use in addition to books, films, etc. The record under this system has been very disappointing. TV has been tested only as a crutch for an educational system built without TV as an integral part of it. The most serious problem stems from the teacher's inability to control the flow of the program. Extraneous or intrinsic distractions often interrupt the attention of some or all of the students. While the class is trying to resolve its confusion, the program moves implacably on with neither the teacher or the children being able to pick up the threads. All too often a well-conceived program is broadcast into a classroom with little or no preparation on the part of the teacher—and more often, expected follow-up activities are ignored or delayed.

Last and most serious for disadvantaged children is that too many programs are irrelevant to the children's life experiences, to their evolving needs and to their learning styles. Rather than programmed instruction perhaps the concept of sequential materials would be more appropriate.[1]

The direction of new R & D ventures should be toward integrating cable TV with two way communication systems that are not restricted by the school setting. The primary disadvantage of individualized instruction has been its cost. The present cable TV opportunity, unlike group instruction in classrooms or broadcast one-way television, opens the prospect of a technology intensive individualized instruction service minimizing building and labor costs. The success of a one-way *Sesame Street*, however, does not imply that a two-way street would not be more effective.

The conventional cable network can best be described as a "party line" network to emphasize the fact that the same program is accessible to all viewers connected to a given trunk. The shape of the network is that of a tree with many branches from each trunk. Two-way trunk transmission can be provided either by adding amplifiers in existing trunks, or by adding an additional trunk cable with amplifiers which amplify only in the reverse direction. Each viewer has a response "pad" (perhaps several buttons). In an education setting a student might be asked to participate in a class by indicating his choice among a number of alternatives. The computer at the studio would compile a histogram showing the number of responses to each alternative, thereby providing feedback to the teacher to go ahead or go over the same material. In the case of a taped *Sesame Street*, one could imagine an automated system that would replay the same material if a sufficient number of students failed to get it the first time. In a cable TV system with a polled subscriber response system, it would be possible to provide the capability to each student to ask for an audio channel by pushing the right buttons and then for the teacher to assign a channel to a student (or a neighborhood center group) when appropriate.

Chicago City Junior College uses one way TV but employs a number of section teachers who are not actual television teachers, Students submit written work and the section teacher assigns grades. He makes himself available to students at conferences and during scheduled weekly telephone conference hours.

To bring to fruition the potential of technology-based home or neighborhood learning services will require more than one pilot project. Market analysts appear convinced that the economic incentives of entertainment, advertising, and privately financed information services are sufficient to guarantee rapid diffusion of both video cassette and cable television hardware throughout the country (unless inhibited by federal regulation). The software development for instructional uses is at an embryonic stage and will require several years of focused effort. A check with some leading authorities indicates their feeling of the need for a group to take several months to sketch out the uncharted area of instructional TV, not tied to public schools. At this point, the USOE R & D effort is limited to funding of *Sesame Street* and environmental education. While the experts laud *Sesame Street*, they feel it only scratches the surface of TV's instructional potential. This instructional TV potential could be integrated with pay TV through a voucher scheme.

It will be important to promote an awareness of what *can* be accomplished—a change of attitude about ETV on the part of school systems, educators, teachers, legislators, and taxpayers. USOE should assist in developing new cadres of talent to work on the software—psychologists, producers, subject or discipline experts, etc. In short, the federal role appears to center on software development and assuring the cable hardware that private entrepreneurs install has the capacity for such educational devices as two-way instructional communications.

High school equivalency programs would be a prime area for demonstrating the potential of instructional TV for elementary/secondary education. All 50 states use a national examination system for equivalency, and all 50 states provide a high school equivalency diploma. There are, however, practically no nationally organized systems of instruction to prepare for the examinations that lead to these certificates. The International Council for Educational Development recently studied the area and recommended strongly the Corporation for Public Broadcasting assist in providing the missing piece: high quality preparatory instruction through TV for those seeking high school equivalency diplomas. The Council also supported a system of tutorial assistance in conjunction with the preparatory TV instruction. WGBH, Boston, has had valuable experience with tutors used in its *TV High School* project. In short; ETV has vast potential for blue collar workers as well as youths.

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[1] See Serena E. Wade, *Media and the Disadvantaged: A Review of the Literature* (ERIC at Stanford).

INCREASED FLEXIBILITY FOR THE CLASSROOM TEACHER

The classroom teacher often finds herself constrained by lack of funds to design or purchase materials or other supplementary educational experiences she feels will be effective. Experiments have shown (Benson) that teachers who have a wider choice of materials, outside resource persons, and time to prepare special educational experiences have been more successful. Studies have shown that (unlike reading) it is extremely difficult to teach math later in a school career if a student has not grasped it early in his school career. Consequently, federal funds could be provided to selected math teachers or elementary teachers that would give them more choice in materials, outside aides, and other experiences.

THE SPECIAL PROBLEM OF VOCATIONAL AND TECHNICAL EDUCATION

Vocational and technical education is commonly regarded as expensive. It does not have high status in our country. Unless special attention is given to its provision, it is likely that the supply and quality of this kind of schooling will suffer under the structural changes we have described. Yet, the availability of this kind of schooling in good quality is exactly what is needed to provide incentives for all but the most ambitious of poor youth to do well in their early years of general education (the problem of a class-differentiated incentive structure for students was noted above).

In his original statement on voucher plans, Friedman suggested that government provide loans to students for their specialized training, with repayment related to the estimated extra income they would earn for having received the instruction. Unfortunately, this laissez-faire approach to the institutional structure under which training is provided may fail to attack the problem of quality of training in sufficient measure. Let us consider the problem in more detail.

What are the difficulties in the present arrangements for supply of skill training in public, formal institutions?

(a) Public institutions, especially those offering instruction above secondary level, are subject to extreme political pressures. It is a popular thing for a local authority to establish, say, a new junior college with a vocational wing in a district that has none. Yet, proliferation of institutions and of programs within institutions can quickly lead a low rate of utilization of specific courses;

(b) Drop out rates in such public institutions are notoriously high. Are these high drop out rates related to the control, i.e., public sector control, of training institutions? It is possible to think so:

(i) Because there is no legal linkage between the training institutions and employers, the student cannot be assured of a job even if he completes the training program successfully; hence, when the student becomes temporarily frustrated in his academic program, he may view the cost to himself of dropping out as rather low;

(ii) Since employers, i.e., those persons who have the most intimate knowledge of what is required of new entrants to the work force, do not select students for admission to the training institutions or for assignment to specific programs within the institutions, and since the previous education of students, by which they establish their eligibility to enter the training institutions, has been general in nature, it seems rather a matter of chance whether a given student really has the motivation and aptitude to learn the trade he is studying; hence, an improper fit between the characteristics of a student and the learnings expected of him may force some students out;

(iii) Students who find their work in training institutions administered by public authorities either too easy or too demanding cannot easily shift to another level of study; hence, certain ones of them would be likely to become bored and drop out prone for lack of interest, while others would be forced out by academic failure (the tendency of public institutions toward rigidity of program is not a necessary feature of their existence, but is possibly related to the fact that public institutions in the education and training fields are seldom scrutinized closely with respect to their own productivity and cost-effectiveness.

(iv) The jobs for which the students are trained are often monopolized by trade unions, membership in which may not be open *de facto* to new graduates;

(c) Training institutions are expensive to operate in the nature of the case. As compared with general instruction, training institutions require more capital facilities (e.g., laboratories and shops); they also require a greater quantity of consumable materials of instruction. Teachers in training institutions, those who are competent anyway, have good opportunities to work in production rather than in teaching, and they must be paid high salaries, as compared with arts teachers, to retain their services. Thus, it is possible, speaking realistically, to run high-grade training institutions only when those institutions can be made to operate efficiently. This means that courses must be filled with the maximum number of students who can be taught effectively in a given subject and that the drop-out rate must be held to a low point. Yet, as we have indicated above, it is just these kinds of efficiencies that public institutions find it difficult to provide.

The most common alternative to training conducted by public institutions is training provided by the employer in the work place. Now, a certain amount of on-the-job training is characteristic of every human economic activity. The question, however, is whether the employer should bear the major share of the responsibility for the development of work skills in the trades and in the technical fields. Apprenticeship is the form in which this employer responsibility has been most clearly delineated.

On the face of it, training by employers would seem to offer certain advantages. The training would almost certainly be relevant to the future work assignment of the trainee, because there would be no educational vested interests to dictate otherwise and because employers would have no incentive to provide irrelevant training. The courses would probably be flexible, in the sense that their length would be determined by the time needed for a given group of trainees to learn a particular set of skills. The program would be flexible, in the sense that courses would be started up or dropped in close relation to the current skill requirements of the employer. These kinds of flexibility are possible to attain because the employer can shift his senior staff from production work to part-time training of new workers and back to full-time production with great ease. Under a system of on-the-job training, the trainee should be less drop-out-prone in two respects: first, he will feel a closer nexus between success in learning new skills and immediate advancement in the firm than he would feel if he was a full-time student in a public training institution, where desire for success in learning is clouded by uncertainty about how and where he can finally get a job; second, because training is more individualized (which is possible, in turn, because the trainee spends part of his time in production), the pace of learning can be accelerated or slowed down in terms of the trainee's own progress, so that he is unlikely ever to become too bored or too discouraged with his instruction; third, he usually is paid.

However, there would appear to be certain disadvantages in shifting the main burden of training onto the shoulders of employers:

(a) If standards of labor productivity are low to begin with, bright, young, eager trainees may regress to those prevailing low standards because they do not have any proper models of performance, if not of skill standards, to look up to;

(b) Only in the largest firms—and sometimes not even in them—can the exceptionally good craftsman or technician find more than a handful of trainees to work with at any given point of time. He may have, perhaps, three apprentices when he could easily be teaching the more bookish parts of the craft to a group of twenty. On-the-job training does not commonly allow economies of scale in the use of the time of instructors. This is a critical shortcoming, given the scarcity of highly skilled persons in operational fields in this country.

So there are disadvantages both in relying mainly on publicly-administered training institutions and in relying mainly on on-the-job training. Some countries have tried to solve this problem by combining the two systems: to have, for example, apprentices receiving instruction in the practical parts of their craft in the work place and simultaneously receiving instruction in the more analytical aspects of their trade in publicly-administered training institutions (on a part-time basis). Actually, this solution may preserve the worst features of both plans. The public institutions may still be staffed by not-so-good instructors, on account of the low pay and status that working in such institutions implies. The trainee may tend to regress still to the low standards of productivity he sees about him in the work place. The problem of attaining efficient utilization of *training skills,* the producers' goods of the human resources industry, would still remain.

Fortunately, there is a "third way" to skill and technical training, namely, to have most of the training performed in institutions which are separate from the work place but to place those institutions under the financial and administrative control of consortia of employers. This plan was adopted in France in 1930, has worked well in Latin America (e.g., the Servico Nacional de Aprendizaje—SENA—of Columbia), and was taken up in England in 1964. What are some of the possible advantages of the "third way?"

(a) The system would provide flexibility in the education and training system where it is most needed. Contrast, for example, the planning of programs for medical professionals with that of programs for skilled and technical workers (e.g., machinists, foundrymen, draftsmen, loom fixers, electricians, computer programmers, etc.). In the former case, decisions are essentially judgmental: how many doctors per 10,000 of population shall the country have at fixed dates in the future? Once this decision is made, planning of programs for the training of doctors is relatively straight-forward. In the latter case, one is dealing with many different types of skills, many of which are substitutable one for the other or with respect to capital. Demand for specific skills is subject to short-term shifts in output markets. Plainly, one should seek a flexible system of training for craftsmen and technical workers. Employer-administered training institutions can provide such flexibility, because employers can second their own craftsmen and technicians into teaching service on short-term assignments, if need be on a part-time basis.

(b) At the same time, the training institutions would allow economies of scale to be achieved in the utilization of time of the trainers. The number of persons a given trainer was instructing could be determined more closely by considerations of pedagogical efficiency and less by accidental considerations of how many apprentices, say, a given plan in a given firm happened to have at the moment.

(c) It the training institutions were financed by a payroll tax, then the institutions would have an elastic source of revenue and one under which the volume of funds flowing to training activities would be functionally related to the degree to which management was substituting labor for capital and higher grades of labor for lower. The stop-and-go characteristics of training when it is strictly a responsibility of individual employers would be ended (after all, private training programs are generally the first causalty of a downturn in profits in a firm).

(d) The training institutions would have the financial resources and the access to data to deal with a number of important topics of applied research, such as the following: what are the strategic learnings from general education necessary to learn specific work skills; how quickly can operational skills be taught to workers of different backgrounds and what are the cost-effectiveness relations involved in acceleration of training, selection of applicants for training, and the provision of remedial education; is a quantitative or analytical set of mind important in developing a high-productivity employee and, if so, how is this way of thinking best developed?

(e) Other, somewhat more specific, advantages are the following:

(i) Insofar as the training institutions required a permanent faculty, they should find themselves blessed with the financial resources and the prestige to attract competent teachers.

(ii) Students would benefit from having the intellectual discipline of the classroom but at the same time they would have been placed in a new, work-oriented setting, different from the public educational institutions in which many of them had previously suffered failure and lost commitment to learning.

(iii) The structure of the training system could easily recognize regional differences in skill requirements and in calibre of students.

(iv) Individual training institutions could incorporate different levels of instruction (remedial, standard, advanced) and different forms (full-time, sandwich, evening).

(v) The program could accommodate high school students, high school leavers, and high school graduates, thus offering an incentive structure consonant with formal educational aspirations of different youth.

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Nothing in the structural changes we have considered earlier would be incompatible with this type of revision of work-related training.

VENDOR PAYMENTS AND EDUCATIONAL CHOICE

The President has declared his support of a right to read program but to date little new federal money has been allocated. We recommend exploration of a vendor payment directly to the child for supplementary reading or basic skill services. Such a program would provide perhaps $200 for children who score substantially below grade norms. Students could take their grant to after school or week end reading clinics run by either private firms or the public schools. Firms and public schools would be invited to meet state requiremnets for reading clinics. It is conceivable that BRL, Sullivan, Berlitz and other firms might set up special reading or basic skill clinics. Vendor payments could be redeemed only for extra services for special educational needs and guidelines would encourage the centers to include community people on their staffs. Many studies of Title I have indicated reading gains erode over the summer. Vendor payments might be used during these summer months to prevent such slippage.

Accountability would be established by requiring that all approved firms or public school groups must record the progress of each child and supply such information to the child's parents, the school and the state accrediting agency. Differential success of firms would also be published at stated intervals, perhaps annually. Where few competitors enter the market to compete for vendor payments, it is possible the payment is too low and the state might increase it. Public schools would be eligible recipients, providing that they fulfilled the accountability requirements of the state. Children could be released from part of the standard curriculum to receive such specialized services.

The schools have shown their greatest failures in adapting to the individualized needs of their students. Even the approaches taken toward compensatory education have emphasized a curriculum or technique for large groups of disadvantaged students in a school. It would seem that the market approach would work best for specialized educational needs. Firms could concentrate on fairly narrow objectives, while allowing the schools to concentrate on the broader aspects of education, especially those that require a close tie to the general needs of the community.

The advantages of these arrangements as we see them would be that (1) we would avoid the kind of fractionalization, segregation and so on of a straight voucher approach; (2) we would retrain the school districts but we would reorganize them so that they would be more effective; (3) we would keep children together for the greatest part of their education without separating out the so-called educationally disadvantaged and isolating them, since their special needs would be handled without stigma by the vender grants and the marketplace; (4) we could help independent schools and church-related schools without encroaching upon possible constitutional violations since the special educational needs of a child would be handled by the state through that marginal voucher, rather than through the school itself; thus, the independent schools and particularly the parochial schools would be able to reduce their resource inputs for concentrating on special educational needs and use them for the general educational needs for their students. Special educational needs would be handled outside of the parochial schools.

Moreover, finally, the scheme reflects the fact that differences in educational opportunity among school districts should not be the responsibility of the school districts *per se*, but the responsibility of the state, since it is the state who is guaranteeing equality of opportunity. This plan, then, places the responsibility for the equality component solely at the state level, while building in the incentives and individuality of the market place for dealing with individual educational problems. It continues to maintain collective educational decision-making and processes for those aspects of schooling that can best be made collectively through the larger society.

We recommend a formula for distributing the funds among the states based on the NDEA formula. States would have two years for planning before the vendor payments were provided. States need to insure the reading centers are in existence, personnel are qualified, base line testing is completed and an evaluation system in place. The state plan would define reading levels eligible for aid and provide 25% in state funds on a matching basis. Although there might be some audit problems we contend we cannot wait for fiscal purity to begin. Children could participate regardless of income so the plan would be attractive to the blue collar vote.

APPENDIX A

REVENUE SHARING (IF STATE DECIDES TO USE FEDERAL DISTRIBUTION FORMULA)

S=State percentage share of federal revenue-sharing payout
P=State population
R=General revenues (includes state and all local units of government, including school and special districts but excludes liquor store sales, revenue from public utilities and from insurance trusts).
I=Total personal income earned by residents of the state
A=Sum of the product of P x R/I for all 50 states and the District of Columbia

For example, Iowa's share of hypothetical $1 billion distribution would be determined in the following manner, based upon 1966–67 statistics:

$$\frac{P\text{—}2{,}753{,}000 \times R\text{—}\$1{,}131{,}000{,}000/I\text{—}\$8{,}258{,}000{,}000}{A\text{—}25{,}939{,}500}$$

Result—S equals .0146, or 1.46 percent of the federal distribution. Thus Iowa would receive $14.6 million for the first full year payout.

Under a per-capita formula which did not take into consideration tax-raising effort, Iowa would have received $13.9 million.

State and local shares—The amount of each state's share which must be "passed through" to the counties, cities, and townships would be determined by the following formula:

M divided by G equals L.

M=Locally generated monies, excluding levels from school and special districts. However, if a school system is financed by a county, city or township budget, the monies would be included.

G—Locally generated revenues plus state-generated revenues, excluding liquor store sales and revenue from public utilities and insurance trusts.

L=Percentage share to be passed through to the localities.

In the Iowa example, the pass-through would be determined in the following manner:

$$\frac{M\text{—}\$288{,}700{,}000}{G\text{—}\$1{,}130{,}000{,}000}$$

Result: L is .255 or 25.5 percent to be passed through to the counties, cities and townships. For Iowa, it would be equal to $4.7 million.

Individual locality share—For a specific county, city or township, the share would be determined according to the following formula:

C divided by F equals H.

C=Revenues generated by the specific locality excluding those from business-type operations such as a transit or water system.

F=Total of all locally generated revenues in the state.

H=Specific locality's share.

In the case of Cedar Rapids, Iowa, the distribution would be as follows:

$$\frac{C\text{—}\$9{,}930{,}000}{F\text{—}\$288{,}700{,}000}$$

Result—H is .034 or 3.4 percent. Thus, Cedar Rapids would receive $159,800 of the localities' total of $4.7 million.

The Treasury Department emphasized that the tax-effort indexes would change as states and localities increased their taxes relative to other states or localities. Illinois, for example, traditionally has been a low-effort state but adopted an income tax in 1969 and, presumably, will show a significantly higher revenue effort in the future. States could change the "pass-through" formula by getting the agreement of two-thirds of the localities, both by number and by share of locally-generated revenues.

Local governments also could challenge a formula or a particular distribution in federal court.

REACTION

Reaction to the President's plan has been mixed and some traditional opponents of revenue sharing have renewed their objections.

The Advisory Commission on Intergovernmental Relations (ACIR), which offered a revenue-sharing plan of its own (HR 13353, S 2483), found little to quarrel with in the Nixon proposal.

"The differences are in detail," said William G. Colman, executive director of the ACIR. He said the Commission favored a cutoff for the pass-through requirement at governmental units below 50,000 population. Distribution to smaller units would be left entirely to the states, he added.

The ACIR plan would weight the revenue-effort ratio by doubling it for cities and counties with populations of more than 100,000. Cities and counties between 50,000 and 99,999 would have their per-capita payout multiplied by a fraction obtained by multiplying its doubled revenue effort ratio by its population ratio within the state.

A COMMISSION REPORT

STATE AID
TO
LOCAL GOVERNMENT

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS
WASHINGTON, D.C. 20575
APRIL 1969
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April 1969

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PREFACE

Section 2 of the Act establishing the Advisory Commission on Intergovernmental Relations (PL 86-380) states:

> "Because the complexity of modern life intensifies the need in a federal form of government for the fullest cooperation and coordination of activities between the levels of government, and because population growth and scientific developments portend an increasingly complex society in future years, it is essential that an appropriate agency be established to give continuing attention to intergovernmental problems.

Among the Commission's responsibilities, specified in Section 2, is to–

> "(6) recommend, within the framework of the Constitution, the most desirable allocation of governmental functions, responsibilities and revenues among the several levels of government."

In this report the Commission addresses itself to the allocation of financial responsibility among the Federal, State and local governments for the conduct of the major domestic governmental functions–education, public welfare and health, highways, and urban development. It recommends a number of significant shifts, including assumption by the National Government of responsibility for financing public assistance and by the State governments of substantially all financing of local schools.

This report was considered by the Commission at two successive meetings on January 17 and April 13, 1969 and was approved by the Commission at the April 13 meeting.

Farris Bryant
Chairman

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ACKNOWLEDGMENTS

Responsibility for the staff work on this report was shared by L. Richard Gabler, Jacob M. Jaffe, and Will S. Myers, Jr., with the assistance of Frank Tippett.

The Commission and its staff benefited from an informal review of a draft of the report by a number of individuals, including John E. Bebout, George A. Bell, Gerard Brannon, Bruce Davie, John Fava, Jean M. Flanigan, James Gibbs, Thomas Graves, William D. Hart, Janet Hoffman, Thomas L. Johns, I.M. Labovitz, Michael Lash, William Leonard, William McCallum, Eugene McLoone, James W. Martin, Anita Wells Merriam, Harold Pellish, Kenneth E. Quindry, Robert W. Rafuse, Seymour Sacks, Don Soule, August Steinhilber, Frederick D. Stocker, and Ralph Taber.

Special thanks are due the staff of the Governments Division, Bureau of the Census, who supplied advance copy of data from the 1967 Census of Governments. The Commission also acknowledges with appreciation the assistance it received from the Mayors of a number of large cities, who furnished property tax information for this study.

The Commission records its appreciation for the contribution of these individuals to this report. Responsibility for content and accuracy rests, of course, with the Commission and its staff.

John Shannon
Assistant Director
Taxation and Finance

Wm. G. Colman
Executive Director

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THE COMMISSION AND ITS WORKING PROCEDURES

This statement of the procedures followed by the Advisory Commission on Intergovernmental Relations is intended to assist the reader's consideration of this report. The Commission, made up of busy public officials and private persons occupying positions of major responsibility, must deal with diverse and specialized subjects. It is important, therefore, in evaluating reports and recommendations of the Commission to know the processes of consultation, criticism, and review to which particular reports are subjected.

The duty of the Advisory Commission, under Public Law 86-380, is to give continuing attention to intergovernmental problems in Federal-State, Federal-local, and State-local, as well as interstate and interlocal relations. The Commission's approach to this broad area of responsibility is to select specific intergovernmental problems for analysis and policy recommendation. In some cases, matters proposed for study are introduced by individual members of the Commission; in other cases, public officials, professional organizations, or scholars propose projects. In still others, possible subjects are suggested by the staff. Frequently, two or more subjects compete for a single "slot" on the Commission's work program. In such instances selection is by majority vote.

Once a subject is placed on the work program, staff is assigned to it. In limited instances the study is contracted for with an expert in the field or a research organization. The staff's job is to assemble and analyze the facts, identify the differing points of view involved, and develop a range of possible, frequently alternative, policy considerations and recommendations which the Commission might wish to consider. This is all developed and set forth in a preliminary draft report containing (a) historical and factual background, (b) analysis of the issues, and (c) alternative solutions.

The preliminary draft is reviewed within the staff of the Commission and after revision is placed before an informal group of "critics" for searching review and criticism. In assembling these reviewers, care is taken to provide (a) expert knowledge and (b) a diversity of substantive and philosophical viewpoints. Additionally, representatives of the National League of Cities, Council of State Governments, National Association of Counties, U.S. Conference of Mayors, U.S. Bureau of the Budget and any Federal agencies directly concerned with the subject matter participate, along with the other "critics" in reviewing the draft. It should be emphasized that participation by an individual or organization in the review process does not imply in any way endorsement of the draft report. Criticisms and suggestions are presented; some may be adopted, others rejected by the Commission staff.

The draft report is then revised by the staff in light of criticisms and comments received and transmitted to the members of the Commission at least three weeks in advance of the meeting at which it is to be considered.

RECOMMENDATIONS

Recommendation No. 1–State Assumption of Substantially All Responsibility for Financing Education

In order to create a financial environment more conducive to attainment of equality of educational opportunity and to remove the massive and growing pressure of the school tax on owners of local property, the Commission recommends that each State adopt as a basic objective of its long-range State-local fiscal policy the assumption by the State of substantially all fiscal responsibility for financing local schools with opportunity for financial enrichment at the local level and assurance of retention of appropriate local policymaking authority.*

Recommendation No. 2–National Government Assumption of Full Financial Responsibility for Public Assistance (including General Assistance and Medicaid)

The Commission concludes that maintaining a properly functioning and responsive public assistance program as presently operating is wholly beyond the severely strained financial capacity of State and local government to support. The Commission therefore recommends that the Federal Government assume full financial responsibility for the provision of public assistance. The Commission further recommends that the States and local governments continue to administer public assistance programs.

The Commission wishes it understood that these recommendations are designed to relieve inequities of resource capacity among the levels of government and apply until such time as Congress and others shall determine a more efficient and appropriate method of welfare administration applicable to the complex social problems of our time.**

Recommendation No. 3–State Compensation for "Municipal-Overburden" in the Absence of Substantial State Support for Schools

In States that have not assumed substantially full responsibility for financing education, the Commission recommends that they construct and fund a school equalization program so as to extend additional financial assistance to those school districts handicapped in raising sufficient property tax revenue due to the extraordinary revenue demands made on the local tax base by city and county jurisdictions.

Recommendation No. 4–Greater State Use of Equalization in State Aid for Public Health and Hospital Programs

To avoid disproportionate tax efforts by poorer local jurisdictions, the Commission recommends that greater reliance be placed upon provisions to equalize among local jurisdictions in terms of fiscal capacity, need and tax effort to govern the distribution of State aid for public health and hospital programs.

Recommendation No. 5–Revamping the Federal Highway Aid Program

The Commission recommends that the Federal-Aid Highway Act be revised to replace the existing primary, secondary and urban extensions program with a new system aiding development of State highways, urban major street and highway networks, and rural secondary highway systems, together with provision for coordinating street and highway development with mass transportation facilities in urban areas.

Recommendation No. 6–State Financial Participation in Urban Mass Transportation

The Commission recommends that urban States develop a mass transportation plan and that, in addition to providing technical and financial assistance to metropolitan areas with regard to the planning of mass transportation facilities and services, the States furnish financial assistance toward the improvement, acquisition and operation of such facilities.

Recommendation No. 7–Allocating State Resources for Highways–The Need for a Better Urban-Rural Mix

The Commission recommends that States so structure their formulas for allocating the proceeds of highway-user taxes among units of local government as to insure a proper balance between urban and rural highway requirements. In order to recognize more adequately urban highway needs and financial ability, the States should allocate their resources to reflect such factors as service level needs, population, accident rates, commuter patterns and fiscal ability.

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* Mr. Daniel, Congressman Fountain, Commissioner McDonald and Congressman Ullman dissented. Senator Mundt abstained.

** Congressmen Fountain and Ullman, Senator Knowles and Commissioner McDonald dissented. Senator Mundt, Secretary Finch, Secretary Romney and Budget Director Mayo abstained.

Recommendation No. 8—Increased Flexibility in the Use of State Highway-User Funds—The Anti-Diversion Issue

The Commission recommends that State constitutional and statutory provisions as to the use of State highway-user revenue be amended to allow localities, particularly in the larger urban areas, flexibility to apply such funds to broad transportation uses in order that they may achieve a balance between highways and other modes of transportation.

Recommendation No. 9—Organizational Requisites for an Effective State-Local Fiscal System

In order to create a policy environment conducive to the development of an effective State-local fiscal partnership, the Commission recommends that each State undertake to: (1) Codify all State aid plans; (2) review and evaluate periodically all State aid programs in terms of their capacity to meet fiscal, administrative, and program objectives; (3) develop in conjunction with the planning and budget officials an information system with respect to local fiscal needs and resources; and (4) evaluate all Federal aid programs in terms of their compatibility to State aid objectives and their fiscal and administrative impact on State and local programs.

Recommendation No. 10—Criteria for Assessing Local Government Viability

In order to avoid bolstering ineffective local units of government with State aid and to move toward a more orderly system of local government structure, the Commission recommends that States enact legislation setting forth specific criteria for assessing the political and economic viability of their local governments—special districts and school districts as well as units of general government—such criteria including but not being limited to (a) measures of fiscal capacity to raise revenues adequately and equitably; (b) measures of economic mixture such as minimum or maximum proportions of residential, industrial or other tax base components; (c) measures of minimum population and geographic size sufficient to provide an adequate level of service at reasonable cost; and (d) other appropriate measures designed to reconcile competing needs for political accountability and community cohesiveness on the one hand with those for variety and reasonable balance in economic and social composition on the other.

Recommendation No. 11—State Standards for Categorical Grant-in-Aid Programs

The Commission recommends that in enacting or modifying functional grant-in-aid legislation, States include not only fiscal standards such as those establishing accounting, auditing and financial reporting procedures; but also, to the maximum extent practicable, performance standards such as minimum service levels, client eligibility, and where appropriate, guidelines for citizen participation such as the holding of public hearings.

Recommendation No. 12—Conformance of State Aid Programs to Comprehensive and Functional Planning Objectives

In order to maximize the effectiveness of State grant-in-aid programs and to assure that such programs will promote statewide economic, social and urban development objectives, the Commission recommends the adoption of and inclusion in such programs of appropriate requirements for conformance of aided facilities and activities to local, regional, and statewide plans.

Generally, State grant-in-aid legislation should (a) use a common definition of comprehensive plans, incorporating the necessary human resource, economic and physical development components; (b) require that there be local functional plans to which major State aided projects and programs can be related; (c) provide for the proper relationship of functional and comprehensive plans and planning for various geographic areas and specify a review procedure; and (d) provide that required plans use a common data base.

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Chapter I

State Aid—Theory and Practice

Financing local government in the years ahead poses one of the more pressing intergovernmental problems. Local governments' needs are increasing rapidly and will continue to out pace their resources. It will require intergovernmental action to correct this imbalance between local needs and local resources.

After sounding this prophetic note in its 1961 report—*Local Nonproperty Taxes and the Coordinating Role of the State*—the Advisory Commission then went on to single out this fiscal imbalance between rapidly rising local revenue requirements and limited taxing resources as the "central problem in State-local relations."

The classical response to this problem, that of placing ever increasing pressure on the local property tax, is becoming increasingly suspect. When viewed in sales tax terms, residential property taxes represent the equivalent of a 25 percent levy on housing expenditure on a nationwide basis—considerably heavier in many communities located in the Northeast, Midwest, and Pacific Coast areas. Moreover, serious defects in the local property tax—unequal assessments, highly regressive impact, and land use distortions—take on an increasingly harsh character as local tax loads increase.

The local tax situation in the South stands out as the major exception to this general picture of growing property tax tensions. When viewed in a national perspective, there does seem to be considerable room for more intensive use of the property tax by many Southern communities.

While the Advisory Commission has consistently urged States to pursue policies that will both promote greater property tax assessment uniformity and shield low income householders and renters from extraordinary tax burdens, even the most equitably administered property tax has its revenue limitations. In the face of rapidly rising expenditure demands of an urbanized society, the local property tax can no longer serve as the prime fiscal underwriter for both education and general local government.

The urgency for a hard look at the present State-local system for financing "local" functions is quickened by the fact that one State-local function—public education—is gradually pushing the more local or municipal-type needs to the fiscal wall. To put the issue more directly, with each passing year public education stakes out a larger claim in the local property tax field. With steadily rising education costs at the local level and only moderate increases in State aid relative to these local expenditures, the claims of education now account for about half of the local property tax, up from one-third prior to World War II.

The need for this appraisal of State aid systems is also made more urgent by the growing political balkanization of the metropolitan economic community. By leaving in its wake a metropolitan landscape pocked with "have" and "have not" communities, the great Post World War II exodus to the suburbs has also placed severe limitations on how far local nonproperty taxes can be pushed as a desirable solution to the local fiscal crisis. In fact, where the need to ease fiscal tensions is most apparent—in our politically fragmented metropolitan areas—this approach is the most suspect. While the widespread use of local nonproperty taxes is in accord with natural predisposition for keeping both tax and expenditure powers in the hands of locally elected officials, it can severely aggravate interlocal fiscal disparities and stimulate interlocal tax competition. For these reasons the Advisory Commission has urged the States to limit local nonproperty tax powers to as large a local jurisdiction as possible, ideally coinciding with local economic and trading areas.

SCOPE OF STUDY

Coming to grips with the growing fiscal crisis at the local level, however, must be viewed as more than providing property tax relief and building more equalization power into State grants to local governments. It goes to the very roots of our federal system—the proper allocation of responsibility among the three major levels of government for financing the high cost "intergovernmental" programs.

This report presents recommendations, therefore, that encompass two broad areas of public policy. The more conventional type deals with the classic functions of State aid—equalization, stimulation, and support—while the more controversial recommendations call on the National Government to assume complete financial responsibility for public welfare and medicaid and the State governments to assume substantially all of the task of financing local schools. Thus, this study also includes a "Federal" dimension.

The need to re-examine the more conventional aspects of State aid is underscored by a key finding–with the exception of the education function, States honor the equalization principle more in the breach than in observance. Thus, this study calls on the States to build greater equalization power into their aid formulas for health, hospitals and highways in order to even out the "peaks and valleys" among local governmental service levels and tax rates.

In contrast to the recommendations which take the existing "system" of State aid as given and posit alternatives only within the present confines of State practices, reallocation of financial responsibilities involves the question of which governmental level *should* have financial–though not necessarily administrative–responsibility for the provision of a public service. This aspect of the study appears as a logical corollary to the earlier considerations. Indeed, optimization of public service performance and public costs–an efficiency criterion–requires such an investigation.

PREVIOUS ACIR RECOMMENDATIONS IN SPECIFIC PROGRAM AREAS

This report attempts to set forth the most appropriate means of financing local government programs and the fiscal role of the State therein. Thus, while it discusses in some detail the major program areas–education, public welfare, health and hospitals, highways and urban development functions–the report is oriented primarily to the State financial aid aspects of these programs.

Without question, State policymakers must necessarily be concerned with a variety of functional and general legislative and administrative policy issues when they provide financial assistance to their local governments. At the very least they have to set standards against which they can measure the effectiveness of the programs they are supporting. Although this report deals with the general role of the State in establishing such guidelines it does not treat them in detail, function by function. This has been done to a considerable extent by the Commission in previous reports and to avoid repetition a summary of the earlier recommendations is set forth below. (Earlier recommendations regarding State aid are not listed but are referenced at appropriate places in this report.)

Education

1. States should enact legislation authorizing and encouraging areawide coordination and administration–through county governments or other appropriate means–of vocational education and retraining programs within metropolitan areas. (*Metropolitan Social and Economic Disparities*, Report A-25, January 1965).

2. States where school financing has not already been placed on a countywide or regional basis should mandate the establishment of county or regional school property taxing districts. (*Fiscal Balance in the American Federal System*, Report A-31, October 1967, Vol. 2 "Metropolitan Fiscal Disparities.")

Mass Transit

Legislative and administrative action should be taken by the States, particularly the larger industrial States, in initiating programs of financial and technical assistance to their metropolitan areas with respect to mass transportation facilities and services. (*Intergovernmental Responsibilities for Mass Transportation Facilities in Metropolitan Areas*, Report A-4, April 1961.)

Water Supply and Sewage Disposal

States should enact legislation to:

1. Provide incentives for areawide or regional development of local water and sewer utilities.

2. Provide State technical assistance to local waste treatment facility planning and construction.

3. Liberalize debt limits and referenda requirements for water and sewer utility financing.

4. Permit joint action by units of local government in meeting area water and sewer needs. (*Intergovernmental Responsibilities for Water Supply and Sewage Disposal in Metropolitan Areas*, Report A-13, October 1962.)

Housing and Urban Development

1. States should share in local governments' costs of providing relocation payments and services in programs for which localities receive State or Federal grants to which the State contributes part of the local share. (*Relocation: Unequal Treatment of People and Businesses Displaced by Governments*, Report A-26, January 1965.)

2. States and regional organizations should assist local governments in planning for relocation through such means as technical assistance in preparation of workable programs and community renewal programs; where States make urban renewal capital grants, advances therefrom should be provided for relocation planning. (*Relocation: Unequal Treatment of People and Businesses Displaced by Governments*, Report A-26, January 1965.)

3. States should authorize and support training programs for building inspectors and provide or arrange for regular internship training programs and States and local governments should utilize grants available under Title VIII of the Housing Act of 1964 to develop such training programs. (*Building Codes: A Program for Intergovernmental Reform*, Report A-28, January 1966.)

Other

1. Each State should undertake a comprehensive study of all governmental entities authorized by law to ascertain the numbers, types, functions, and financing of entities within the State that might be defined as special districts, subordinate agencies, and taxing areas in order to determine their total impact on government structure and organization within the State and for the purpose of developing appropriate selected legislation. (*The Problem of Special Districts in American Government*, Report A-22, May 1964.)

2. Fragmentation of the local tax base should be prevented by authorizing a State agency, subject to public hearing and court review, to consolidate or dissolve local governmental units within metropolitan areas, to stop the use of interlocal contracts that contribute to fragmentation, and to reduce State aid to local governments not meeting statutory standards of economic, geographic, and political viability. (*Fiscal Balance in the American Federal System*, Report A-31, October 1967, Vol. 2, "Metropolitan Fiscal Disparities.")

3. States should develop, at the State level, a policy incorporating social, economic, and other considerations to guide specific decisions at the State level which affect the patterns of urban growth; multicounty planning agencies should review applications for Federal or State physical development project grants; and the State legislature should provide standing committee structure to assure review of State policy dealing with urban growth. (*Urban and Rural America: Policies for Future Growth*, Report A-32, April 1968.)

TYPES OF STATE AID

The State government provides public services in two ways—either directly through agencies or instrumentalities of the State or by means of intergovernmental transfers of funds to localities. In both cases, State actions benefit local government. By directly providing a service, the State obviates the need for local financing; by making grants-in-aid available, the State supplements local resources for a particular public program. For the purpose of this report then, consideration of State aid will encompass both the reallocation of functional responsibilities among governmental levels as well as changes in the practices currently pursued by the State government in channeling intergovernmental transfers to localities. Thus, consideration of State aid will deal with increased financial participation by the State for public services currently provided by the State-local fiscal partnership.

The State sector can and does assist local governments in non-financial ways. States provide a variety of technical aids such as advice and assistance in investing idle funds and the marketing of local debt issues. A number of States now provide planning and economic assistance, particularly with regard to regional matters, as witnessed by the recent establishment of State offices of community or local affairs. Finally, States can provide help to localities by easing or abolishing tax and debt restrictions—many of which are carry-overs from a bygone past and inappropriate for the current day. By granting localities additional fiscal authority—such as expanded property taxing and borrowing powers as well as authority to tap nonproperty tax sources—States can permit localities to exploit their fiscal resources more fully. Except as the granting of such authority offers an alternative approach to additional State aid or the realignment of functional responsibilities, however, neither this kind of action nor the provision of technical and planning assistance is dealt with in this Report.

CURRENT FINANCIAL MAGNITUDES AND TRENDS

State intergovernmental expenditures are of two basic types: (a) grants-in-aid and (b) shared taxes. The former include not only those amounts authorized and appropriated by the State legislature but funds received by the States from the Federal government which are then channeled to the local level. Shared taxes are somewhat different. In this case, the State acts essentially as a tax collector, so as to avoid duplication of administration and compliance, and returns to the localities all or a portion of the yields from a particular tax—either by an allocation formula or on the basis of origin of collection.

Of the $60 billion spent by local governments in 1967, $19 billion came from State sources, including approximately $4 billion in Federal funds that the States transmitted to their local jurisdictions. It should be noted that these State payments represented a 75 percent increase over 1962, a continuation of a trend that has extended throughout the post World War II period and, indeed, throughout the 20th Century. Compared to its current level, State intergovernmental expenditure was but $3.3 billion in 1948 and a miniscule $52 million in 1902, the first year for which such data are provided (table 1).

TABLE 1—STATE INTERGOVERNMENTAL EXPENDITURE, SELECTED YEARS, 1902-1967

Item	1967	1962	1948	1934	1927	1902
State intergovernmental expenditure (in millions of dollars)	19,056	10,906	3,283	1,318	596	52
As % of local general revenue	32.4	28.4	28.9	22.7	10.1	6.1

Source: U.S. Bureau of the Census, 1967 Census of Governments, Vol. 6, *State Payments to Local Governments 1967*, table 1.

While this expansion in State intergovernmental expenditure has led to some financial centralization during the post World War II period, the massive increase in local taxes, particularly the property tax, has contained this movement. As a percent of total local general revenue, State aid has grown from 28.9 percent in 1948 to 32.4 percent in 1967; thus, at present, about one of every three local revenue dollars comes from the State. By way of contrast, State aid at the turn of the century represented but 6.1 percent of local revenue—a testimony to the limited involvement of State governments in financing State-local activities. The period of greatest shift in the State-local financial mix was between 1927 and 1934 when State aid as a percentage of local revenue more than doubled—from 10.1 percent to 22.7 percent—attributable mainly to the expansion in public welfare programs during the Great Depression.

Functional Distribution of State Aid

While there have been many shifts in the relative importance of the local functions aided by the States, the primacy of the education function as a recipient of State aid has been continuous throughout the 20th Century (figure 1). As of 1967, 62.2 percent of all State financial assistance went for elementary and secondary education. Public welfare stands a distant second—a position it has retained since 1938. Currently accounting for 15.2 percent of State intergovernmental expenditure, this function initially secured significant State aid payments during the 1930's.

Taken together then, more than three-fourths of State aid currently goes to public education and welfare—with public education alone accounting for over three-fifths of the total. The other functions receiving sizable State financial assistance are public highways, 9.8 percent, and general local government support, 8.3 percent. Since 1948, however, there has been a general decline in the relative importance of these latter classifications.

Distribution of State Aid by Type of Receiving Government

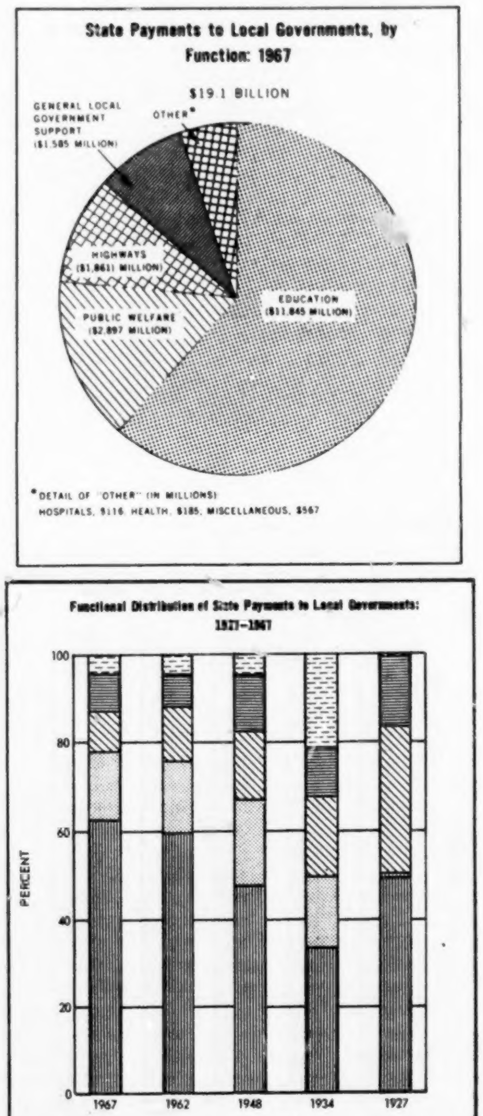
As might be expected, school districts stand out as the type of jurisdiction that receives the most generous share of State aid. In 1967, about half of all State aid went to that class of local governments, a little less than a fourth went to counties, somewhat more than a fifth to municipalities, and about 4 percent to townships and special districts (figure 2 and table A-1*).

A cross-classification of State aid for functions and by type of receiving government reveals that in 1967 counties received the bulk of welfare, highway, health and hospital aid, while school districts, of course, received almost all of the education aid. Municipalities received more than half of the aid for general local government support, reflecting to a significant degree the large amount of per capita aid in New York, which is weighted in favor of cities, and the Wisconsin shared revenue system, which tends to favor municipalities because it returns income tax revenue to its origin.

In the national aggregates, cities receive substantial shares of State aid for public welfare, highways, and

FIGURE 1

EDUCATION HOLDS THE COMMANDING POSITION ON THE STATE AID FRONT



Source: U.S. Bureau of the Census, *State Payments to Local Governments, 1967*, (1967 Census of Governments, Vol. 6), Table 1.

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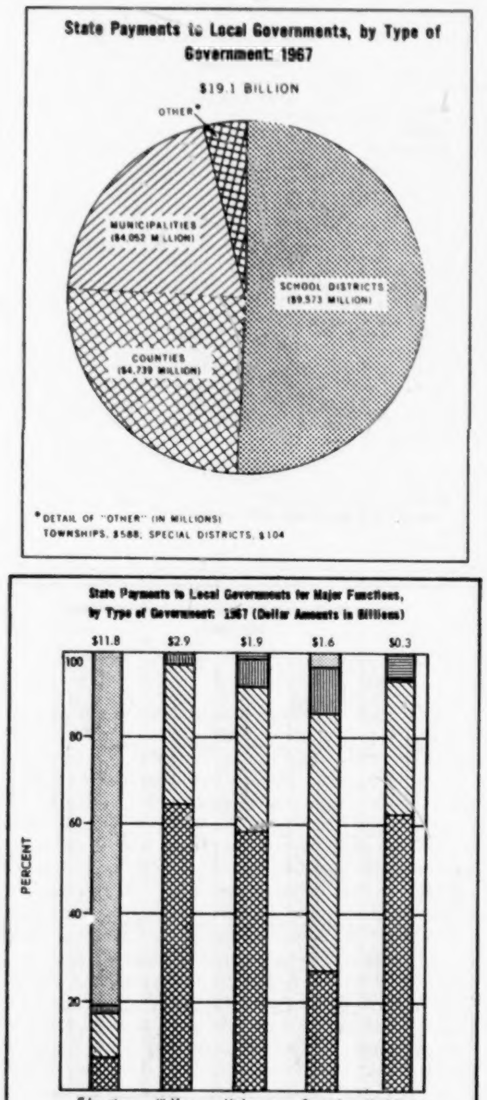
*Appendix Tables appear at the end of each chapter.

FIGURE 2

SCHOOL DISTRICTS RECEIVE MORE AID THAN CITIES AND COUNTIES COMBINED



State Payments to Local Governments, by Type of Government: 1967

*DETAIL OF "OTHER" (IN MILLIONS)
TOWNSHIPS, $588; SPECIAL DISTRICTS, $104

State Payments to Local Governments for Major Functions, by Type of Government: 1967 (Dollar Amounts in Billions)

Source: U.S. Bureau of the Census, *State Payments to Local Governments, 1967*, (1967 Census of Governments, Vol. 6), Table 6.

health and hospitals, but this can be attributed almost entirely to a few big cities–New York, San Francisco, Denver, and Baltimore which have county as well as city functions.

Interstate Variations in Intergovernmental Expenditures, 1967

States differ considerably in their use of intergovernmental transfers for the support of various public services. Indeed, this is the case not only for total State aid but also for the individual functional categories. Compared to median State intergovernmental expenditures for all functions of $77 per capita during 1967, for example, such transfers ranged from a high of $178 in New York, more than twice the median, to a low of $21 in New Hampshire, less than one-third of the median value (figure 3 and table A-2).

These variations in State intergovernmental transfers encompass two significant fiscal distinctions. In part they reflect the differing State histories and traditions regarding the allocation of State and local financial responsibilities. Equally important, however, is that States also differ in the choice between providing a service directly or through the use of intergovernmental transfers to localities. Thus the extraordinarily low standing of Hawaii, providing $10.00 per capita via intergovernmental expenditures for public education (compared to $55 for that function in the median State), and Missouri, where transfers for public welfare are but $0.15 (compared to the median value of $4.24), reflect the far greater reliance that Hawaii and Missouri place upon providing these particular functions directly rather than by means of transfers to local governments.

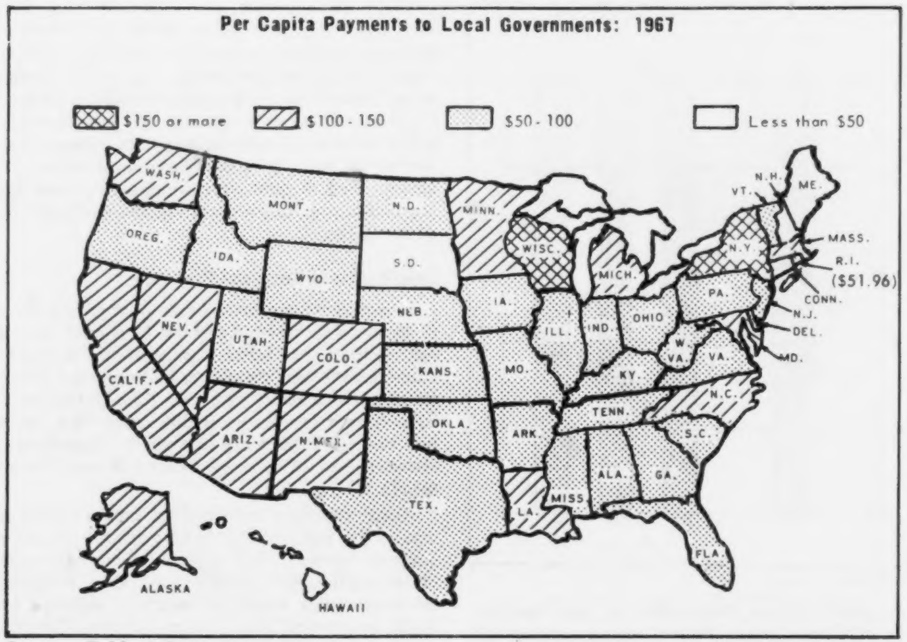
For these reasons then, State aid expenditures are but part of the picture regarding the scope and degree of State government involvement in particular functions. To gauge the total State and local financial participation in the provision of public services in each State, table A-3 relates State plus local spending to State personal income. In fiscal 1967 general expenditure of State and local governments averaged 13 percent of personal income and ranged from a low of 10 percent in Illinois to a high of 19.4 percent in North Dakota.

FACTORS INFLUENCING THE RELATIVE GROWTH OF STATE AID

Faced with unrelenting expenditure demands, local governments have responded by increasing their own tax rates, adopting new tax sources and expanding their debt. Such actions, however, have not been sufficient to prevent them from becoming somewhat more dependent in recent years on "outside" sources of finance–that is, State and Federal governments (figure 4 and tables A-4 and A-5). This relative expansion of outside financial sources for local revenue, however, represents the net effect of several forces–some of which have operated to

FIGURE 3

SOME STATES AID THEIR LOCALITIES CONSIDERABLY MORE THAN OTHERS


Per Capita Payments to Local Governments: 1967
$150 or more
$100 - 150
$50 - 100
Less than $50
WASH.
OREG.
CALIF.
NEV.
IDA.
MONT.
WYO.
UTAH
COLO.
ARIZ.
N.MEX.
N.D.
S.D.
NEB.
KANS.
OKLA.
TEX.
MINN.
IA.
MO.
ARK.
LA.
WISC.
ILL.
MICH.
IND.
OHIO
KY.
TENN.
MISS.
ALA.
GA.
FLA.
S.C.
N.C.
VA.
W. VA.
PA.
N.Y.
VT.
N.H.
ME.
MASS.
R.I.
($51.96)
CONN.
N.J.
DEL.
MD.
ALASKA
HAWAII

Source: Table A-2

expand the State financial role vis-a-vis their localities while others have tended to retard this development.

"Benefit Spillovers" and State Aid

One of the key arguments in favor of State aid rests on the growing interdependence of contemporary society. Developments in the areas of transportation and communications as well as the seemingly innate American tendency to personal mobility have all served as "the ties that bind." It is this increasing tendency toward greater interdependence that underscores the limited jurisdictional reach of rather fragmented local governments and the critical role of State and Federal financial support.

Where the recipients or beneficiaries of specific public services reside wholly or for the most part within the locality, this governmental level is the preferred agent for providing such services. For many public expenditure categories, however, recipients of program benefits are to a significant extent the non-residential population. Thus, for functions such as elementary and secondary education, public welfare, and public highways, functions which many consider the "crisis elements" in contemporary urban finance, benefits accrue not only to individuals in a particular locality but to residents in the remainder of the State and nation as well. For functions such as these, where interdependence or spillover effects are relatively heavy, sole reliance on local initiative may result in under-financing of the service in question. This is the case, since in providing these and other public services characterized by spillover effects, local residents will tend to concentrate on the benefits they receive and to discount or ignore benefits accruing to those who reside elsewhere. As a result, then, such functions tend to be under-financed unless outside assistance is secured.*

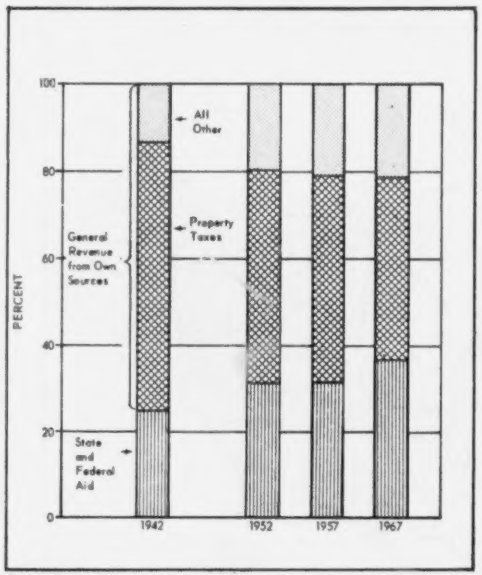
To be sure, the degree of interdependence differs from function to function and among the various programs within the broader functions. Nonetheless, the interdependence of contemporary life has left few areas that exclusively benefit local residents. According to one consideration of various functional programs, benefit spillovers are the rule and their absence the exception (table 2).

---

*This discussion assumes that benefit-spillovers are not precisely counter-balanced by benefit-spillins and cost-spillouts.

FIGURE 4

LOCAL GOVERNMENTS ARE BECOMING INCREASINGLY DEPENDENT UPON OUTSIDE REVENUE SOURCES



Source: Table A-4.

For public services characterized by such spillover effects, outside financial aid is both logical and essential. Where these spillovers are contained largely within a State, such governments would be the appropriate financial source. Indeed, one of the major purposes for which State aid is currently granted is to stimulate local governments to undertake new, or to expand existing, public services. Closely related to this objective is State assistance to finance certain demonstration projects where new concepts or approaches to problems can be tested out on a selective basis. Programs such as these then, are designed to cope with the spillover considerations and constitute attempts to offset the tendency of such effects to result in underfinancing at the local level.

TABLE 2–PUBLIC PROGRAMS CLASSIFIED ACCORDING TO ABSENCE OR PRESENCE OF SIGNIFICANT BENEFIT SPILLOVERS

Public program	Significant spill-over effects	Spillover effects not significant
Local Schools	x	
Transportation	x	
Public Welfare	x	
Health and Hospitals	x	
Police		
Basic Services		x
Special Services	x	
Fire		x
Water Supply	x	
Sewage Disposal	x	
Refuse Collection		x
Refuse Disposal	x	
Parks and Recreation	x	
Public Housing	x	
Urban Renewal	x	
Libraries		
Basic		x
Special	x	
Air and Water Pollution	x	
Urban Planning	x	

Source: George F. Break, *Intergovernmental Fiscal Relations in the United States*, (Brookings Institution: Washington, D. C.) p. 176.

Under this approach, States provide financial assistance for a variety of public programs. Typically, this assistance is limited to a portion of the total expenditure required, with localities having to put up the remaining sums. These funds are generally provided according to a formula that gives recognition to local "needs" for public services–for highway programs, measures such as number of road miles or vehicle registrations are frequently used. A more general measure of local need is population and, for particular functions, relevant subsets of this factor.

Equalization of Needs and Resources

A second major purpose in the granting of State aid is to be found in the need to bring local needs and financial resources into better alignment. As a result of economic growth and the greater interdependence of local governments demands have risen for a greater degree of equality over broader geographic areas. Thus, the pressure to upgrade the scope and quality of public services elsewhere has led to demands for improved services in specific local areas.

Great variations in local fiscal capacity stand out as one of the major barriers to the provision of more equal program benefits. State programs designed to equalize these variations are intended to provide a minimum level of service below which no locality is permitted to fall. Such service equalization programs are extensively used by State governments for the support of elementary and secondary education but are conspicuous by their absence in virtually all other fields in which the States extend aid to local governments. The minimum floor or foundation concept is achieved by gearing State aid inversely to some selected measure of local fiscal capacity. Thus, localities with limited tax resources receive relatively more State aid than do their richer counterparts for a given program and, to some extent, the variations in local fiscal capacities are narrowed.

The fact that equalization provisions are built into State aid programs, particularly for education, does not mean that measures of need for public services are not also used. One frequently used measure in the field of educational finance, for example, is the value of all taxable property for each child in average daily attendance. This approach can give explicit consideration to local fiscal capacity while at the same time incorporating an index of needs for public services.

Technological Advance

Another general factor that has affected State aid to local governments is the increasing size of the "efficient" or optimal local governmental unit. As noted earlier, an important part of this Report deals with the reallocation of functional responsibilities among governmental levels and a critical force in this regard has been technological advance which affects the public as well as the private sector. Perhaps the most dramatic manifestation of the impact of technological change on the public sector is the development and diffusion of the automobile. It generated demands not only for more roads but for an integrated network of a quality distinctly better than the dirt facilities of 1900–designed as they were for horse-drawn and bicycle traffic. The influence of technology is also apparent in the use of audio-visual and teaching machines–and its potential scope in the field of education is presently undefined–while the use of more elaborate capital equipment and techniques also marks efforts to abate air and water pollution.

As the provision of public services becomes more complicated and capital intensive, the possibility of generating economies of scale becomes ever greater. Such scale economies mean that even aside from questions of financial ability, the most efficient size of local government will tend to increase. The upward pressure exerted by technological change may take place either at the State level or at some intermediate stage between the State and locality–such as the metropolitan or regional district. Regardless of the ultimate resolution of this pressure, the thrust of the technological advance to date is to push the locus of public services away from the local governmental level.

Limitations of Local Property and Nonproperty Taxes

Aside from some of the large central cities and urban counties, the sole significant tax source of local governments is the property tax. Currently (fiscal 1969) yielding approximately $31 billion a year the property tax has withstood periodic waves of critical assault and continues to be the major source of finance for local governments.

Despite the wide scope for improved administration of the property tax[1] the fact remains that this tax has a relatively sluggish response to economic growth–certainly when compared with the personal income tax. As a result of this sluggish response and growing expenditure demands, local governments are continuously pressured into the search for additional tax dollars. Further increases in effective property tax rates, however, would only add to the already notable demand for property tax relief–evidenced by programs in Minnesota and Wisconsin to provide relief to the elderly and by formal and informal tax concessions granted by localities themselves.

Expansion of local nonproperty taxes is, of course, one option in attacking the revenue raising problems of local government. Levying such taxes, however, is generally regarded as inefficient for small, fragmented units since each locality must administer the tax and, because of its limited jurisdictional reach, must cope with additional compliance problems. Further, local income taxes encourage, to some extent, the exodus of middle and upper income families to the suburbs while local sales taxes tend to favor the shopping centers and wealthy communities where fiscal problems are less pronounced.

Because localities rely so heavily on the property tax, demands have been generated for additional State aid financed, as it generally is, from nonproperty tax sources–the general sales, personal and corporate income as well as other nonproperty taxes. Channeling a part of the yields from these taxes to the local level by means of intergovernmental transfers enables the State sector not only to reduce a major source of local fiscal tension but permits the recipient localities to share in a more diversified and productive revenue structure.

Home Rule and the Value of Pluralism

Running counter to the forces favoring a greater degree of financial centralization, is a strong emotional and traditional preference to "keep things local." Arguments in favor of localism usually center on the creative potentiality of local initiative with its encouragement to political participation and identification. Such arguments also stress the expertise of local officials whose knowledge of particular circumstances can be more acute than decisions reached by more distant authorities. Indeed, since programs carried out by upper level governments encompass all local jurisdictions with widely varying circumstances, they may conflict with or hamper particular localities whose unique situations are not adequately recognized.

A somewhat more sophisticated argument gives maximum focus to the pluralism of American life. According to one view, the multiplicity of local governments offers the opportunity for "consumers" of public services to exercise their sovereignty and to choose that locality which offers the public service-taxation package that best meets their individual preferences. Thus the large number of local governments and their varying public service-tax rate offerings are desirable *per se* because people are free to move among the localities. Just as the private sector adjusts to changes in demand by varying its level of output or product line, local governments–in response to migration flows and changing preferences–will adapt to differences in individual preferences for public services.

This identity of local taxes and local services, however, cannot be accepted as a valid generalization for all services provided by local governments since it gives no consideration at all to the presence of spillover effects. As mentioned previously, benefit spillovers appear to be the rule in the public sector and their absence, the exception. Nor can it be ignored that through their constitutions, State govenments are charged with responsibilities for financing public education, and that States historically have played a role in financing certain public functions performed by local governments.

Practical Checks to State Aid

Further checking the influence of forces leading to the growth of State aid are several more or less practical considerations. For one, many States have an anemic revenue base–failing to use a balanced tax structure and, in particular, making only limited use of the personal income tax, which is not employed at all in 15 States. While there is untapped revenue potential at the State level, it is nonetheless true that there is also considerable citizen reaction to higher State taxes. Thus, political initiative in adopting new taxes or raising rates on existing levies entails a risk of defeat at election time. To be sure, there has been much legislative activity in the post World War II period to add to the productivity of State revenue systems, but such past actions can evoke a cumulative reaction that makes further increases all the more difficult.

Even where successful in raising additional revenues, the granting of State aid requires a division of funds among localities. In this context, everybody naturally demands a piece of the pie, and such State expenditure programs require the resolution of standard conflicts between city and suburban as well as rural and urban interests. This plurality of interests then can result in the delay or even defeat of State aid programs.

THE NEED FOR REFORM

In contrast to the conceptual clarity of the major purposes of State aid, most, if not all, State aid systems need to be reassessed in light of the shift over the years in the nature of local communities. State aid systems that were devised during the early years of the century, either simply to distribute State funds on some egalitarian basis to urge localities into particular functional areas or to help support certain public services (primarily education and highways) that were deemed by State policymakers to be endowed with statewide interest, no longer meet the needs of an increasingly urban and technologically interdependent society.

The emergence of a set of "lopsided" communities, some with tremendous demands for public services and a deficit of resources to meet them, others with few demands on their treasuries and a surplus of resources, calls for drastic State action to rectify the imbalance. The States can no longer afford the luxury of dispensing State funds to all local governments without taking explicit notice of great variations in program needs. Some kinds of communities are so fiscally strong that they have little or no need for State aid. Others are so weak that no amount of State financial aid can make them viable–different means must be applied in such instances, including the possibility of eliminating some kinds of local governmental units by annexation, consolidation or other boundary adjustment policy.

One persistent criticism of State aid has been that it tends to perpetuate and prop-up inefficient units of local governments–units that simply are not capable of performing the public services currently demanded. This is particularly true with regard to State aid for education where innumerable small independent school districts receive outside finance in significant proportions. While encouraging progress has been made in reducing the number of school districts, it is nonetheless true that many such units still exist whose boundaries were more appropriate to the past than to the present–particularly in view of the great changes that have occurred in population distribution, the locus of economic activity and the greatly enhanced transportation network that now exists. In its worst form, State aid strengthens inefficient units–the first to oppose governmental reorganization–and is dissipated without accomplishing its objectives. State aid then should be geared to assuring that local units are capable in all respects–and not only financially–of delivering the intended services.

The same general forces also argue for a reinvestigation of governmental responsibilities for the provision of various public services. Where State and national interests are extensive, localities should not be the prime financing agent for a public service. Some centralization of financial responsibility has developed over the course of the recent past–particularly in the prime areas of benefit spillovers such as elementary and secondary education, public welfare and highways. An outright shift of financial responsibilities is a clear alternative to changing geographic boundaries. Both approaches offer the opportunity of making program benefits and costs more commensurate while reducing the fiscal disparities that presently mark the local scene. These advantages must be balanced continually, however, against the traditional and real political advantages of "local home rule."

There is also evidence to support the view that State aid as currently provided fails to constitute a system. Categorical aids for narrowly defined purposes are mixed together with a sprinkling of shared taxes, and both are then channeled among localities by a surprisingly diverse set of allocation criteria. The establishment of more rigorous organizational requisites, more forward-looking criteria for assessing local government viability, and more meaningful State performance standards to accompany categorical aids with such State aid programs to conform to comprehensive and functional planning objectives all are necessary reforms if State aid is to be effectively geared to meet the problems of today, rather than representing the cumulative responses to the pressures of the past.

Footnotes

[1] See, for example, Advisory Commission on Intergovernmental Relations, *The Role of the States in Strengthening the Property Tax*, 2 Vols., A-17, Washington, D. C., June 1963.

TABLE A-1—PERCENTAGE DISTRIBUTION OF STATE AID TO LOCAL GOVERNMENTS BY TYPE OF LOCAL GOVERNMENT, BY FUNCTION, 1962 AND 1967

Type of local government	All functions		General local government support		Education		Highways		Public welfare		Health and hospitals		Misc. and combined functions	
	1967	1962	1967	1962	1967	1962	1967	1962	1967	1962	1967	1962	1967	1962
All local governments	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Municipalities	21.3	18.7	58.7	62.9	9.9	7.8	33.0	30.3	32.0	25.3	30.2	30.3	56.3	58.6
Counties	24.9	28.1	27.1	29.9	8.0	8.2	58.2	62.6	65.3	70.8	63.6	61.2	30.4	25.2
School districts	50.2	49.5	3.1	5.6	80.4	82.4	—	—	—	—	—	—	0.7	5.0
Townships[1]	3.1	3.3	10.8	11.2	1.7	1.6	6.4	7.0	2.7	3.8	0.5	0.5	3.2	1.6
Special districts	0.6	0.4	0.4	[illegible]	—	—	1.4	—	0.1	0.1	5.8	8.0	9.4	9.6
Amount (in mill. of dollars)	19,056	10,906	1,585	844	11,845	6,474	1,861	1,320	2,897	1,779	301	186	587	295

[1] Includes New England towns which, in general, perform the same kinds of urban functions as do municipalities in other regions of the country.

Source: U.S. Bureau of the Census, *State Payments to Local Governments* 1962 and 1967, (1967 Census of Governments Vol. 6 and 1962 Census of Governments Vol. VI)

TABLE A-2—PER CAPITA STATE INTERGOVERNMENTAL EXPENDITURE, BY FUNCTION, BY STATES: 1967

State	Total	General local government support	Specified functions					
			Education	Highways	Public welfare	Hospitals	Health	Miscellaneous and combined
All States	$ 86.70	$ 8.04	$ 60.11	$ 9.45	$14.70	$0.58	$0.94	$2.88
Median State	77.26	4.92	55.38	11.01	4.24	0.44	0.42	1.44
Alabama	82.63	2.12	65.84	11.28	—	1.90	0.51	0.98
Alaska	104.86	9.26	81.28	—	—	—	—	4.32
Arizona	103.73	24.77	65.49	11.62	—	0.41	0.40	1.03
Arkansas	71.36	3.84	53.10	12.73	0.04	0.71	—	0.83
California	144.87	5.49	68.25	14.33	46.77	0.54	2.08	7.41
Colorado	103.75	0.14	49.42	12.04	37.88	0.02	0.42	3.83
Connecticut	46.88	0.34	40.85	2.06	1.26	—	0.04	2.33
Delaware	135.29	—	126.75	3.83	2.00	—	—	2.80
Florida	70.62	0.23	62.10	2.87	—	0.38	0.28	4.74
Georgia	91.18	—	75.20	11.01	2.10	1.17	1.23	0.47
Hawaii	28.28	14.22	10.00	—	—	2.88	—	1.08
Idaho	74.58	4.92	54.78	14.32	—	0.54	—	0.03
Illinois	64.57	—	43.04	13.47	7.21	0.13	0.20	0.52
Indiana	86.06	3.88	55.40	15.78	9.71	0.29	0.48	0.53
Iowa	73.15	13.52	34.81	23.20	0.80	0.23	0.18	0.81
Kansas	87.90	4.79	52.30	6.15	22.87	0.89	0.14	0.87
Kentucky	64.70	0.68	58.55	0.85	—	0.71	0.83	2.93
Louisiana	107.47	17.56	80.01	6.15	—	0.80	0.51	2.34
Maine	40.76	0.48	35.02	3.18	0.72	—	0.01	1.36
Maryland	108.87	18.35	52.48	12.64	20.60	0.10	0.31	3.29
Massachusetts	117.28	29.74	33.90	2.81	44.53	0.79	—	5.48
Michigan	114.00	11.17	74.89	19.21	4.24	1.17	0.63	2.71
Minnesota	122.83	6.28	68.07	14.37	30.27	0.07	0.08	3.69
Mississippi	81.46	6.40	58.84	13.51	—	1.23	—	1.48
Missouri	54.22	0.90	47.32	4.30	0.15	0.45	0.15	0.95
Montana	53.79	—	49.15	0.29	0.24	0.06	0.03	4.02
Nebraska	54.54	0.80	13.54	14.68	23.29	0.52	0.36	1.34
Nevada	101.43	10.54	77.33	11.53	—	0.29	0.61	1.13
New Hampshire	21.08	6.01	13.42	0.73	0.08	—	1.47	0.37
New Jersey	60.63	1.11	38.46	2.27	16.40	1.17	0.45	1.77
New Mexico	135.80	3.96	123.59	5.84	—	0.21	—	2.20
New York	178.06	19.46	96.82	6.54	44.46	0.03	4.55	6.20
North Carolina	106.90	4.65	81.60	1.85	18.64	1.01	0.60	0.55
North Dakota	65.41	2.38	42.78	14.08	1.21	—	0.28	4.70
Ohio	61.48	7.40	32.36	15.41	5.18	0.34	0.22	0.62
Oklahoma	76.70	0.99	54.14	18.35	—	0.58	—	2.64
Oregon	96.79	17.26	57.38	18.32	0.72	0.03	0.60	1.48
Pennsylvania	67.88	0.52	54.31	5.54	2.38	0.05	0.83	3.94
Rhode Island	51.86	8.18	37.80	0.43	5.23	—	0.08	0.24
South Carolina	76.75	7.87	62.17	3.74	—	1.96	0.81	0.50
South Dakota	36.46	2.81	28.29	3.52	0.16	0.28	—	1.39
Tennessee	77.77	5.63	56.79	13.31	0.04	0.82	—	1.19
Texas	60.86	0.01	59.23	0.70	—	0.34	—	0.58
Utah	96.31	0.98	87.89	5.36	—	0.41	0.28	1.37
Vermont	61.95	0.02	43.75	12.02	1.30	—	—	4.85
Virginia	73.59	3.04	56.36	3.68	8.56	0.27	0.53	2.15
Washington	124.84	6.00	95.72	13.53	2.22	0.43	0.55	6.40
West Virginia	68.06	—	63.80	—	1.11	0.31	0.31	0.65
Wisconsin	150.73	68.94	42.60	22.05	11.19	4.53	0.48	0.94
Wyoming	111.70	7.07	72.47	8.84	15.95	4.81	0.27	2.28

Source: Bureau of the Census, Census of Governments 1967, Vol. 6, No. 4, *State Payments to Local Governments, 1967*, Table 4.

TABLE A-3—STATE AND LOCAL GENERAL EXPENDITURE FROM OWN SOURCES AS A PERCENT OF STATE PERSONAL INCOME, BY STATE, 1957, 1962, AND 1967

State and Region	1967	1962	1957	Percentage increase or decrease (–) 1957–1967
United States	13.0%	12.2%	10.8%	20.4%
New England	11.7	11.5	11.7	—
Maine	13.2	13.1	10.8	22.2
New Hampshire	11.8	11.0	11.8	—
Vermont	14.8	13.8	13.2	12.1
Massachusetts	11.6	11.7	12.2	– 4.9
Rhode Island	12.7	10.8	9.5	33.7
Connecticut	10.7	11.0	11.3	– 5.3
Mideast	13.0	11.8	10.2	27.5
New York	15.0	13.3	11.5	30.4
New Jersey	10.4	10.1	9.0	15.6
Pennsylvania	11.4	10.8	8.9	28.1
Delaware	15.1	10.8	8.6	75.6
Maryland	12.6	11.4	10.6	18.9
Dist. of Columbia	10.3	10.3	7.4	39.2
Great Lakes	11.6	11.5	9.8	18.4
Michigan	13.3	13.3	11.3	17.7
Ohio	10.8	10.7	9.3	16.1
Indiana	11.6	11.4	9.7	19.6
Illinois	10.0	10.2	8.7	14.9
Wisconsin	15.0	13.9	11.7	28.2
Plains	13.2	12.4	11.6	13.8
Minnesota	15.3	14.6	13.2	15.9
Iowa	13.1	13.3	12.2	7.4
Missouri	11.5	9.9	8.6	33.7
North Dakota	19.4	17.2	16.3	19.0
South Dakota	15.2	13.8	14.3	6.3
Nebraska	11.9	11.3	10.5	13.3
Kansas	12.5	12.4	13.1	–4.6
Southeast	13.0	12.6	11.1	17.1
Virginia	11.7	11.3	10.1	15.8
West Virginia	13.2	12.1	9.3	41.9
Kentucky	13.1	14.3	9.5	37.9
Tennessee	13.1	11.8	9.9	32.3
North Carolina	12.0	11.7	10.2	17.6
South Carolina	11.5	11.2	11.5	—
Georgia	12.1	12.1	11.2	8.0
Florida	13.7	13.0	12.2	12.3
Alabama	13.0	12.2	11.1	17.1
Mississippi	14.0	16.0	12.5	12.0
Louisiana	16.5	16.1	15.2	8.6
Arkansas	11.8	10.9	10.3	14.6
Southwest	13.0	12.1	11.1	17.1
Oklahoma	13.8	12.3	12.8	7.8
Texas	12.1	11.8	10.3	17.5
New Mexico	16.1	12.9	12.6	27.8
Arizona	15.7	14.7	13.4	17.2
Rocky Mountain	14.8	13.1	12.2	21.3
Montana	14.0	13.0	12.4	12.9
Idaho	14.7	12.9	11.8	24.6
Wyoming	17.7	14.4	12.3	43.9
Colorado	14.5	12.8	12.4	16.9
Utah	15.3	13.3	11.7	30.8
Far West[1]	14.9	13.6	11.8	26.3
Washington	13.8	13.7	12.5	10.4
Oregon	14.7	11.9	13.7	7.3
Nevada	15.5	13.7	12.3	26.0
California	15.0	13.6	11.7	28.2
Alaska	18.1	13.5	6.8	166.2
Hawaii	16.5	14.8	13.9	18.7

[1] Excluding Alaska and Hawaii.

Source: U. S. Department of Commerce, Office of Business Economics, *Survey of Current Business, August 1968*; U.S. Bureau of the Census, *Historical Statistics on Governmental Finances and Employment* (1962 Census of Governments, Vol. VI, No. 4) 1964 and *Governmental Finances in 1966-67*.

TABLE A-4—DISTRIBUTION OF LOCAL GOVERNMENT GENERAL REVENUE BY SOURCE AND BY TYPE OF GOVERNMENT, SELECTED YEARS, 1942-1967

Fiscal Year	All local governments: Amount[1] (millions)	All local governments: Percent distribution by source	Percent distribution by type of government: Cities[2]	School districts[3]	Counties[2]	Townships & special districts
	Total General Revenue (Local Revenue & Federal-State Aid)					
1942	$ 7,075	100.0%	37.0%	33.7%	22.0%	7.3%
1952	16,952	100.0	32.0	38.4	20.7	8.9
1957	25,918	100.0	30.3	41.9	19.5	8.3
1967	60,226	100.0	28.8	47.0	17.8	6.5
	Intergovernmental Revenue (Federal and State Aid)[4]					
1942	1,785	25.2	24.0	43.8	27.8	4.5
1952	5,281	31.2	18.7	48.9	28.2	5.2
1957	8,048	31.1	17.6	53.6	23.5	5.3
1967	21,887	36.4	17.7	58.2	18.5	5.5
	General Revenue From Local Sources (Taxes and Charges)					
1942	5,290	74.8	41.4	30.3	20.0	8.3
1952	11,671	68.8	38.0	33.3	18.3	10.5
1957	17,868	68.9	36.1	36.6	17.7	9.6
1967	38,340	63.6	32.0	40.5	17.4	10.1
	Local Property Taxes					
1942	4,347	61.4	38.8	32.8	20.1	8.0
1952	8,282	48.9	32.7	39.2	19.8	8.3
1957	12,386	47.8	29.7	42.8	19.2	8.3
1967	25,418	42.2	24.8	48.9	18.5	7.8
	Local Nonproperty Taxes					
1942	358	5.1	70.1	14.0	10.1	5.9
1952	1,184	7.0	75.7	16.0	6.2	2.1
1957	1,901	7.3	72.5	16.4	8.5	2.7
1967	3,887	6.5	70.9	15.9	10.4	2.8
	Local Charges and Miscellaneous General Revenue					
1942	584	8.3	41.6	21.2	25.0	12.2
1952	2,205	13.0	37.4	20.2	19.0	23.4
1957	3,580	13.8	38.8	25.9	17.6	17.8
1967	9,035	15.0	35.6	27.5	17.2	19.9

[1] Includes the following approximate amounts of duplicative interlocal transactions: 1967—$1.5 bil.; 1957—$600 mil.; 1952—$100 mil.; 1942—$50 mil.

[2] Excludes est. amounts allocable to dependent school systems.

[3] Includes est. amounts allocable to dependent city and county school systems.

[4] Includes direct Federal-local aid as well as Federal aid channeled through the States.

Source: ACIR Staff computations based on U.S. Bureau of the Census data.

TABLE A-6—STATE INTERGOVERNMENTAL EXPENDITURE,* BY STATES: 1952 TO 1967

State	Amount (in thousands of dollars)				Per capita				Percent increase in per capita	
	1967	1962	1957	1952	1967	1962	1957	1952	1962 to 1967	1957 to 1967
All States	18,056,380[1]	10,906,400	7,438,321	5,043,798	$96.70	$58.94	$43.88	$32.55	64.1	120.4
Median State	(X)	(X)	(X)	(X)	77.25	49.15	38.02	28.32	63.2	123.9
Alabama	292,510	164,425	138,891	128,479	82.62	48.97	43.05	40.96	68.7	82.0
Alaska	28,523	14,217	(7,531)[2]	([2])	104.86	57.79	(33.03)[2]	([2])	81.5	([2])
Arizona	169,481	95,063	51,718	30,160	103.72	64.06	46.67	35.78	61.9	123.2
Arkansas	140,427	75,456	46,306	41,758	71.35	41.38	25.80	22.43	72.4	176.6
California	2,774,663	1,642,908	1,130,287	812,133	144.86	96.81	79.40	68.91	49.6	82.4
Colorado	204,914	145,756	112,929	81,580	103.75	76.43	66.70	59.20	35.7	55.5
Connecticut	137,136	81,843	38,041	23,671	46.88	31.51	16.55	11.54	48.8	183.3
Delaware	70,752	38,997	15,840	11,982	135.28	85.28	37.71	35.35	58.6	258.7
Florida	423,343	246,277	137,130	82,078	70.81	45.11	32.30	26.32	56.5	118.6
Georgia	411,140	203,944	142,882	98,407	91.18	48.74	37.29	27.25	83.3	144.5
Hawaii	20,900	34,564	(18,989)[2]	([2])	28.28	35.45	(32.46)[2]	([2])	−20.2	([2])
Idaho	52,133	32,323	20,241	13,109	74.58	46.31	31.68	22.52	61.0	135.4
Illinois	703,314	385,033	248,602	132,323	64.56	37.96	25.80	14.92	70.1	150.2
Indiana	430,284	238,911	165,399	127,113	86.05	50.97	36.43	30.64	68.8	136.2
Iowa	201,391	123,989	106,467	82,018	73.15	44.85	38.47	31.19	63.8	90.1
Kansas	199,965	117,378	91,818	78,336	87.89	52.94	43.28	39.72	66.0	103.1
Kentucky	206,322	123,684	64,427	43,655	64.70	40.13	21.91	14.97	61.2	195.3
Louisiana	383,555	254,103	187,487	115,043	107.46	76.31	60.07	40.98	40.8	78.9
Maine	39,682	22,253	14,026	11,317	40.76	22.28	14.87	12.45	82.9	174.1
Maryland	400,877	256,798	131,080	85,894	108.87	80.48	45.61	34.32	35.3	138.7
Massachusetts	636,642	319,172	254,294	189,687	117.25	61.84	52.19	41.08	89.6	124.7
Michigan	978,607	600,724	405,509	322,012	114.00	76.30	64.42	48.58	49.4	77.0
Minnesota	430,875	264,485	165,087	119,285	122.82	76.11	49.82	38.28	61.4	146.5
Mississippi	191,261	127,409	82,423	61,080	81.45	56.68	38.64	28.08	43.7	110.8
Missouri	248,671	141,209	91,908	63,818	54.21	32.49	21.58	15.91	66.9	151.2
Montana	37,709	22,770	14,188	11,262	53.79	32.12	21.43	19.02	67.5	151.0
Nebraska	78,258	45,624	35,538	37,301	54.53	30.74	25.49	28.58	77.4	113.9
Nevada	45,038	23,708	12,436	4,291	101.43	70.76	48.39	23.71	43.3	109.6
New Hampshire	14,463	6,684	4,476	2,810	21.08	10.54	7.77	5.44	100.0	171.3
New Jersey	424,582	187,898	124,878	67,964	60.63	31.70	22.28	13.42	91.3	172.1
New Mexico	136,212	93,400	55,628	32,333	135.80	91.56	63.94	43.28	48.3	112.4
New York	3,285,275[1]	1,621,419	926,064	630,923	178.08	87.43	57.15	41.41	103.7	211.6
North Carolina	537,584	336,181	214,478	58,808	108.89	71.06	48.28	([3])	50.4	121.4
North Dakota	41,794	24,289	19,185	13,502	65.40	37.83	30.50	22.01	72.9	114.4
Ohio	643,165[1]	489,389	376,732	280,838	61.49	49.47	40.59	32.05	24.3	51.5
Oklahoma	191,367	120,763	93,836	78,840	76.89	49.43	41.28	35.11	55.5	85.8
Oregon	183,476	101,440	89,036	60,380	96.78	54.42	38.79	31.98	77.8	143.2
Pennsylvania	787,036	481,948	419,580	187,327	67.67	40.53	38.33	17.77	67.0	76.5
Rhode Island	46,783	27,846	16,048	12,329	51.95	31.98	18.79	15.47	62.5	176.5
South Carolina	199,472	108,877	95,270	64,317	78.74	46.11	40.91	28.12	70.1	87.6
South Dakota	24,571	12,724	8,509	6,644	36.45	17.65	12.48	10.14	106.5	192.1
Tennessee	302,670	169,259	124,848	83,584	77.78	46.58	35.96	24.94	66.9	116.2
Texas	661,533	442,819	274,367	196,180	60.86	43.78	30.08	23.60	39.0	102.3
Utah	99,622	58,030	28,032	21,142	96.31	61.04	33.45	28.96	57.8	187.9
Vermont	25,636	12,096	9,868	6,880	61.95	30.99	26.18	16.26	99.9	136.6
Virginia	333,619	168,612	106,083	80,302	73.59	40.61	27.76	24.01	81.2	165.1
Washington	385,390	261,628	163,458	113,980	124.84	87.04	58.66	46.35	43.4	109.3
West Virginia	118,783	72,017	60,721	48,073	66.06	40.62	32.23	24.32	62.6	105.0
Wisconsin	631,414	336,438	247,524	181,574	150.73	81.97	65.10	55.37	83.9	131.5
Wyoming	35,185	26,838	20,914	14,628	111.89	73.53	64.75	49.25	51.9	72.5

*State aid to local governments, including Federal funds channeled through the States. In 1967 such Federal funds were approximately $4 billion, about 20 percent of total "State payments to local governments."

X Not applicable.

[1] Revised.

[2] Alaska and Hawaii figures are not available for 1952, and appear here for 1957 only as exhibit data, not included in totals for "All States."

[3] Not computed; prior-period amounts involved are not directly comparable.

Source: Bureau of the Census, Census of Governments 1967, Vol. 6, No. 4, *State Payments to Local Governments.*

Chapter II

Conclusions and Recommendations

Before outlining the policy recommendations in detail, a summary of the findings and conclusions of the Report will introduce the critical issues involved. Three major themes emerge.

SUMMARY OF FINDINGS AND CONCLUSIONS

- *There is a mismatch among governmental levels in the financial responsibility for the provision of public services.* This imbalance is caused by (a) the widespread State practice of forcing the local property tax to serve as the primary underwriter of both the local school system and units of local general government and (b) the present Congressional policy that requires State and local governments to pick up approximately one-half the nation's $10 billion public welfare bill. To redress this imbalance, the Commission calls upon the Federal Government to assume full financial responsibility for the public assistance function–including general assistance and medicaid–and for the States, as a long range objective, to assume substantially all the non-Federal share of elementary and secondary education costs.
- *With the major exception of public education, State aid distribution formulas generally fail to recognize variations in local fiscal capacity to support public services.* For such intergovernmental programs as public health and hospitals and highways, the Commission calls for States to include measures in their distribution formulas that reflect the ability and capacity of local governments to provide these services. This would add greater equalization to State-local fiscal relations and help assure that State dollars go to those local jurisdictions in greatest fiscal need.
- *In few if any States does State aid really constitute a "system."* To assure a more responsive and effective State aid structure, the Commission believes certain organizational aspects of the State-local fiscal system to be imperative, suggests criteria for assessing local government viability, and calls for the adoption of State performance standards to accompany categorical State aid, such programs to conform to comprehensive and functional planning objectives.

The need for these actions is underscored by the following findings regarding State aid generally and the major functions supported by State aid.

State Aid and Local Fiscal Needs

- Tremendous pressures on local government treasuries have resulted from increasing demands for more and better quality education, public welfare and health and hospital services, and new urban development programs–the need for a balanced transportation system in urban areas, the need to rebuild cities and to provide decent housing for all, and the need to control air and water pollution.
- State financial aid has been increasing steadily to an annual total exceeding $19 billion in fiscal 1967, but has barely kept pace with the growth in local expenditures, providing between 28 and 32 percent of local revenue over the past decade.

Education

- Characterized by heavy inter-jurisdictional benefits, the State government–rather than localities–should be the prime financial source.
- With steadily rising educational costs at the local level and only moderate increases in State education aid relative to those local costs, school needs are absorbing more and more of property tax revenues–the claims of education now account for more than half of the local property tax dollar, up from one-third in 1942.
- School equalization formulas, designed to provide more comparable educational opportunities throughout a State, nonetheless permit substantial variations in per-pupil expenditures and generally ignore the critical need for special assistance to those districts where the poor tend to congregate.

Public Assistance

- The public assistance problem is national in origin, national in scope, but nonetheless heavily financed by States and localities.
- The postwar migration of the poor from the rural areas to the large urban centers in search of enhanced job opportunities has saddled many of the large metropolitan areas with disproportionate shares of the public assistance caseload, bringing not only spiraling public welfare costs but additional educational, public safety, and other fiscal burdens.
- Benefit levels, eligibility criteria and fiscal capacity differ substantially among States–setting off an uneconomic migration of individuals to the "more generous" areas, while additional taxes to finance such programs tend to induce a counterflow of people and businesses away from the generous areas.
- In a number of States, local governments are required to finance a substantial portion of public assistance costs–over 20 percent of the total cost in seven States and in a few States, half or more of the nonfederally financed portion. Nonetheless, States–and particularly localities–have only limited policy or administrative control over public assistance programs.

Health and Hospitals

- An analysis of present State aid programs for the support of health and hospitals reveals that, with but few exceptions, State financial assistance is provided by distribution formulas that fail to recognize the varying ability of localities to support these services. This means that to provide comparable services throughout the State, disproportionate tax efforts by the poorer communities would be required unless greater reliance was placed upon equalization provisions for the distribution of State aid.

Highways and Mass Transit

- Urban transportation needs are beginning to be recognized by Federal and State highway administrators but there is still an urban-rural imbalance favoring the rural areas in the distribution of State highway funds.
- The long-standing policy in most States of earmarking highway-user taxes only for highway construction and maintenance needs to be reevaluated, especially by the urbanized States. The "antidiversion" principle has, to be sure, contributed to the development of an unparalleled road network in this country, but new transportation requirements have arisen in our urban areas. There is now a recognized need for a balanced transportation policy in urban areas, encompassing both highways and mass transportation facilities–a need that requires a large infusion of funds. Broadening the application of highway-user funds to urban mass transportation facilities in addition to highways will help to mitigate the urban transportation problem.

Urban Development Programs

- The industrial States are beginning to recognize their financial responsibility for urban development programs. Twenty States now have agencies with concern for urban affairs and a few have embarked on multi-million dollar mass transportation, water and sewer, and urban renewal programs, thereby "buying in" to related Federal programs.

RECOMMENDATIONS

Transfer of Education and Public Assistance Functions

Recommendation No. 1–State Assumption of Substantially All Responsibility for Financing Education

In order to create a financial environment more conducive to attainment of equality of educational opportunity and to remove the massive and growing pressure of the school tax on owners of local property, the Commission recommends that each State adopt as a basic objective of its long range State-local fiscal policy the assumption by the State of substantially all fiscal responsibility for financing local schools with opportunity for financial enrichment at the local level and assurance of retention of appropriate local policymaking authority.* ** +

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*Mr. Daniel, Commissioner McDonald, and Congressman Ullman dissented from this recommendation and stated: "In our view, this recommendation overly circumscribes the financial, and therefore the innovative and experimental, role of local governments. We agree that financial arrangements for elementary and secondary education need to be strengthened by additional State aid; we do not agree that the transfer of this financial responsibility to the State is called for. Assumption of substantially all the financing of elementary and secondary education by the State runs the danger of achieving only a uniform educational mediocrity. While policymaking authority is to be retained at the local level by this recommendation, it is nonetheless clear that such authority is severely circumscribed in its efforts to achieve quality education. The effective divorce of expenditure decisions from revenue-raising responsibilities for public education runs counter to what we regard as good administrative practice."

**Congressman Fountain dissented from this recommendation and stated: "While I agree generally with the principle that extensive State aid is necessary to strengthen elementary and secondary education, as well as to relieve the growing burden of taxes on local property for school purposes, I cannot support the recommendation that States should assume

This recommendation rests on three key premises: That local property taxpayers must be relieved of substantially all the burden of underwriting the non-Federal share of education; that State assumption of such costs is the most likely route to the provision of equal educational opportunity; and that local policymaking authority over elementary and secondary education must be retained.

If this recommendation is to have real meaning, the amount of local supplement would have to be severely circumscribed–for example, to not more than 10 percent of the State program. Indeed, failure to require such a restriction would undermine two objectives–that of creating a fiscal environment more conducive to educational opportunity and that of relieving the local property tax base of the school finance burden. At present, several States–New Mexico, North Carolina, Delaware, and Louisiana–are within striking distance of this goal while Hawaii has assumed complete financial and administrative responsibility for the provision of public education.

The need to shield the local property tax base from undue school finance pressure is emphasized by the fact that local schools are constantly increasing their share of this tax source. Back in 1942 about one-third of all property tax revenue went to the educators; now it is slightly more than 50 percent.

A persuasive case can be made to support the proposition that the more local or municipal-type functions should have first claim on the local property tax base. Because the benefits of education clearly transcend the boundaries of the local school district, a higher level of government–the State–should assume the primary financial responsibility. Such State action will help to prevent local units of general government– cities and counties–from being gradually pushed off the local property tax preserve by the school boards.

The case for State assumption of substantially all of the non-federal share of financing education also rests heavily on the contention that only by this action will an approximate parity in resources per pupil be achieved. Just because the social and economic consequences of high quality–and low quality–education are felt far beyond school district confines, States should no longer tolerate significant variations in educational outcomes that result from accidents of fiscal geography. Yet so long as each local school district has wide latitude in setting its own tax levy, great variations in both wealth and willingness to tax will continue to produce significant variations in the resources behind each student. In short, both the content of educational financing and therefore the quality of education itself are to some extent presently shaped by local property tax geography.

In theory at least, State legislators could adopt "Robin Hood"-type equalization programs designed to skim off excess property tax wealth from rich districts and transfer these resources to poor jurisdictions. In practice, however, this is extremely difficult as State legislators can generally be expected to support proposals that will aid their districts and to oppose any bald attempt to transfer their district's wealth to poorer jurisdictions. As a result, most State aid programs at best are "mildly" equalizing; incredible as it may seem, many of them discriminate against the central cities where educational needs are the most dire. For this reason then, State aid programs generally fail to level off the great peaks thrown up by wealth and local fiscal autonomy and only partially fill in the valleys left by anemic local resources.

Because of practical political limitations on the power of State legislators to transfer funds, only two ways remain for States to come to grips with local educational fiscal disparities. They can either create, *via* consolidation, ever larger local districts or attempt to neutralize local fiscal variations by progressively increasing State aid to all local districts in the State. While many States have made remarkable progress on the school district consolidation front, there are practical administrative and political limitations upon just how far they can go. Districts left behind by the consolidation movement are frequently the most in need of such action and generally regarded as pariahs by their more affluent neighbors. As a result, State assumption of substantially all the non-Federal share of financing education looms as the approach most likely to achieve that long-standing goal of educators and the American people–the equalization of educational opportunity.

State assumption of complete responsibility for financing of education should leave ample room for local initiative and innovation in the field of public education. In fact, once liberated from the necessity of "selling" local bond issues and tax rate increases, school superintendents and local board members can concentrate their efforts on the true interest of local control–namely the nature and quality of education that is provided for the children of their locality. Further, the long tradition of local control of education and the keen concern of most parents for the educational well-being of their children will serve as sturdy defenses against both arbitrary State administrative action and any policy that short changes educational financial requirements. Indeed, there is reason to believe that forward looking State educational leadership would encourage and promote local educational innovations.

State assumption of complete responsibility for financing education is not Utopian. As previously noted, four States (New Mexico, North Carolina, Delaware, and Louisiana) are within striking distance of this goal while Hawaii, lacking a tradition of local control, has assumed

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substantially all financial responsibility for local schools. I believe further, that each State must determine for itself the most desirable balance of State-local funding for education in the light of its own history, traditions, and financial circumstances."

+Senator Mundt abstained from voting on this recommendation.

complete responsibility for both financing and operation of schools.

Nor does the long-range goal of substantial State financing need to be a wrenching experience. While budgetary considerations may well dictate a somewhat gradual rather than overnight substitution of State income and sales tax dollars for local property tax receipts, evidence suggests that perhaps as many as 20 States could *next year* assume complete responsibility for public school financing if they were willing to make as intensive use of personal income and sales taxes as the "top ten" States now make on the average. Thus, when viewed alongside the resultant and dramatic decrease in local property tax loads, State assumption of financial responsibility loses its idealistic cast and takes on the appearance of a realistic and equitable readjustment of the total tax burden.

The Commission recognizes that perhaps the most serious argument against this proposal is the condition of political apathy prevailing in some States where there is no widespread demand for this kind of departure from the *status quo*. For this reason, assumption of substantially all the non-Federal share of school expenditures by the State is presented as an objective toward which all the States must work, with a few crossing over the goal line each year. Recognizing the very great importance of local policy control over schools and the need for some leeway in meeting unusual financial situations, the Commission recommends that local school districts be permitted to supplement the State contribution, but on a limited basis. This limitation could be effected by a statutory provision restricting the use of local property taxing powers for schools to, say, 10 percent of the funds provided by the State to the locality during a designated fiscal period.

Recommendation No. 2–National Government Assumption of Full Financial Responsibility for Public Assistance (Including General Assistance and Medicaid)

The Commission concludes that maintaining a properly functioning and responsive public assistance program as presently operating is wholly beyond the severely strained financial capacity of State and local government to support. The Commission therefore recommends that the Federal Government assume full financial responsibility for the provision of public assistance. The Commission further recommends that the States and local governments continue to administer public assistance programs.

The Commission wishes it understood that these recommendations are designed to relieve inequities of resource capacity among the levels of government and apply until such time as Congress and others shall determine a more efficient and appropriate method of welfare administration applicable to the complex social problems of our time.* ** +

A sense of urgency presently surrounds the public welfare debate. Although State and local governments contributed almost half of the $10 billion needed to underwrite public assistance programs in 1968, an intergovernmental "showdown" is imminent. The crisis is the product of many factors–recent court decisions striking down State residence requirements, great variations in State welfare benefits, the rapid rise in AFDC and Medicaid costs particularly in the more urbanized States, and the growing expenditure demands of programs that are more favored at the State and local level than public assistance.

Full Federal assumption of financial responsibility for providing public assistance, however, need not be regarded as a "final solution." Rather, alternative approaches–such as the negative income tax or family allowance plans, or some other plan–might ultimately prove more effective in meeting the needs of the poor. For the present, however, assumption of public assistance programs by the National Government stands as the most readily available proposal to meet the absolutely impossible and inequitable fiscal and tax situation into which States and their localities have been placed.

Because of their limited jurisdictional reach and fiscal capacities, State and local governments simply cannot adequately provide necessary public assistance to needy and medically indigent people. Neither of these governmental levels can afford to get too far out of line with its neighbors regarding either expenditures for such programs or the consequent tax rates. To do so would introduce further elements of "locational pull"–as recipients or potential recipients seek higher program benefits–or "locational push," as individuals and businesses seek to leave high tax areas. Such expenditure or tax differentials, however, can set off counter-reactions having the effect of nullifying initial intentions–a danger that is further highlighted at the local level where the greater homogeneity of other factors make expenditure or tax differentials all the more prominent.

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*Congressman Fountain, Congressman Ullman, Senator Knowles and Commissioner McDonald dissented from this recommendation and stated: "The Commission's recommendation that the National Government assume full financial responsibility for public assistance is incompatible with a fundamental premise this country has always operated on–that people in the same community have responsibilities toward their neighbors. By calling for continued State and local administration, it divorces the essential link between the spending and revenue raising responsibilities. Moreover, by simply shifting financial responsibility to the Federal Government, the recommendation does not come to grips with the more fundamental weaknesses in the existing welfare structure–its extremely high administrative costs and unequal treatment of people in like circumstances. We believe it more desirable to give immediate attention to finding better ways of dealing with the poverty problem, rather than attempt to modify existing arrangements for the sake of relieving State and local government of a fiscal burden. We all recognize that State and local governments are in financial difficulties and that changes in financing arrangements must be sought but we do not believe that the solution of this problem can be found in the expedient proposed by the majority with respect to public welfare."

**Senator Mundt abstained from voting on this recommendation.

+Commission members from the Federal Executive Branch (Secretary Finch, Secretary Romney and Budget Director Mayo) abstained from voting on this recommendation because of insufficient opportunity to review and analyze its implications.

In point of fact, differences among States in program benefits and eligibility requirements work in a perverse direction. States that are unable or unwilling to provide a minimum level of public assistance compatible with family needs find their share of caseloads diminishing while States meeting this obligation find their welfare rolls expanding. A woman travelling from Mississippi to New York with nine of her twelve children was recently denied public assistance on the ground that going on welfare was her sole aim in moving to New York City. By coming to New York, a woman with twelve children would receive about $640 more per month than she would in Mississippi. For the more typical family of four, Mississippi provides an average monthly payment of $35 while in New York, the recipient is eligible for $241 a month–enabling the recipient to recoup, *within a single month* the total bus fare from Jackson to New York City. While it is not possible to determine the number of people who are lured solely by such differentials in program benefits, it is nonetheless clear that these variations–over and above accounting for cost differences among geographic areas–tend to promote a flow of low income individuals into the large metropolitan centers.

Perhaps the more important factors, however, are unemployment and underemployment which force many of the employable poor onto the welfare rolls. Lack of job opportunities for the less well educated and unskilled results ultimately from national forces that have transformed the economy–forces beyond the control of State and local governments. Thus, the search for better jobs–a search that promotes the national interest–nonetheless becomes a penalty for State and local jurisdictions when job seekers are frustrated.

As a more practical matter, State and local governments simply do not fully exploit the individual income tax–the logical tax levy for redistributing income. While there is potential use for this tax levy by State governments, it is not well-suited for localities–except the large central cities. As a result, State and local financing of public assistance tends to fall harder on the poor than would an individual income tax–the mainstay of Federal revenues. Thus, the use of State and local revenues to provide services *for* the poor in a sense results in disproportionate support *by* the poor.

Shifting financial responsibility for public assistance programs to the Federal Government would tend to reduce or eliminate constraints that presently hamper State and local government efforts to provide other public services. While relieving all sub-national units of this responsibility would free up about $4.6 billion of State and local revenues, it would be of particular benefit to those States and cities where the poor have tended to congregate. As such it would reduce tax competition between city and suburb, for example, and at the same time, serve to reduce the pressures on the local property tax.

To some, a proposal to remove State and local governments from financial responsibility for public assistance programs poses the danger that the nation will lose control of this problem. More persuasive, however, is the argument that States and particularly localities now have little effective control over such programs anyway–witness, for example, the recent Supreme Court decision prohibiting State residence requirements. The immediate effect of this decision is to increase the welfare caseload since those not meeting the eligibility criteria solely because they failed to reside in a jurisdiction a sufficient length of time are now able to receive public assistance. By striking down residence requirements, the decision also had the effect of reducing a barrier to migration which may add to the flow of individuals toward the more generous States. Both effects then will serve to exacerbate the State-local fiscal strain imposed by public assistance.

To the extent, however, that State and local governments are forced to trim welfare rolls to their budgetary capabilities rather than the legitimate needs of the poor, then there is no truly national welfare program. To assure an equitable system both among individuals and governments, it must therefore be nationally financed. Such a national welfare system, however, must be flexible enough to accommodate its benefit schedule to the diverse living costs of the rural South and high cost urban areas, particularly those located in the North. Full Federal assumption of the welfare system should not work to the detriment of recipients who presently reside in States with the more generous benefits; it should assure a basic standard of living regardless of geographic area.

The advantages of the National Government assuming full financial responsibility for public assistance programs far outweigh the above reservations. Such advantages are the achievement of a more equitable and adequate standard of benefits throughout the country, and the removal of a contributing source of fiscal pressures on those State and local units beset by diminishing fiscal resources and disproportionate shares of the poor.

Federal assumption of full financial responsibility for public assistance raises the question of administrative responsibility. Would it be desirable to continue State-local administration, perhaps under stronger Federal guidelines and direction, or shift to direct Federal administration?

Direct Federal administration could be effected by using the 700-odd district and branch offices now administering Social Security and Medicare programs. A second possibility would be to transfer State and local personnel currently administering public assistance to the Federal payroll and place them under the supervision and direction of the HEW regional directors.

Other programs provide precedents for continued State administration under full or near-full Federal financing. The United States Employment Service is run by the States but for all practical purposes is a Federal operation since Federal funding of administrative costs is 100 percent. In addition, for three years the Community Action Program under the Office of Economic Opportunity has been funded at 80 to 90 percent by the Federal Government, with a liberal allowance of in-kind contributions by local bodies which in many cases effectively has meant 100 percent Federal financing. Yet these programs were essentially carried out at the local level by non-Federal personnel and organizations.

On balance, the Commission believes that the continued viability of our federal system and widespread public support for keeping this program "close to the people" argue in favor of retention of administrative responsibility of the public welfare program at the State and local level while nationalizing its funding.

Issues and Costs Involving the Transfer of Education and Public Assistance Financing to the State and National Governments

Fiscal centralization. Recommendations calling for Federal financing of public assistance trigger the claim that the inexorable logic of fiscal centralization will also lead to the nationalization of school financing. There are, of course, parallel issues in both these functional fields–centering around the national interest in these functions, the growing mobility of the population, and the revenue limitations of States and localities. Both functions are marked by "benefit spillovers"–the respective services presently provided by these governmental units spill over and thus affect not only residents but others living outside the particular locality and State as well. Similarly these functions are constrained by State-local financial limitations–regarding both the property tax and the potential use of non-property tax revenues.

If these were the only relevant considerations, then the same "fiscal solution" ought to be applied in both instances–particularly since no hard evidence exists that the relative importance of these issues differs substantially between the two functions. There are, however, further considerations that do appear to differ markedly between the two functional areas.

For one, fiscal considerations may prove the decisive barrier to anything approaching complete Federal financing of local schools. While there is currently a Federal contribution to financing of public education–and one that will probably grow steadily in amount if not in proportion–nationalization of school financing does not appear as a viable proposition for the foreseeable future. The Federal Government currently underwrites only 7 percent of the costs of local schools–out of total educational costs of approximately $34 billion. At most then, the Federal Government will assume a strong secondary role–that of equalizing variations in needs and resources among States and stimulating efforts in certain program areas. By way of contrast, the Federal Government already finances more than half of the nation's $10 billion public assistance bill.

Beyond the fiscal dimension, the need for alternative solutions for these two functional areas is underscored by the fact that while there is an intense political loyalty to the concept of "local schools", no comparable citizen identification or involvement exists regarding public assistance. Nothing–in folklore or in fact–rivals "the little red schoolhouse" or the "school marm." To be sure, this point involves subjective as well as historical and traditional valuations. It is nonetheless true that the school marm and the welfare worker are not held in comparable civic esteem.

A closely related point that further highlights the differences between public education and welfare is to be found in the fact that a highly successful State-local education program can be thought of as its own reward–even if benefits flow to those who do not help finance it. To educate one's children not only in an academic sense but in a context of social and civic responsibilities may be deemed sufficiently worthy to incur the necessary additional fiscal burdens. *Moreover, State and local policymakers are becoming increasingly aware that a high quality educational system stimulates economic development.*

No comparable situation exists in the public welfare field. These programs and the necessary related services of housing, health, etc., are applicable to a much smaller number of individuals and receive far less support among the general public. They seem to have as their ultimate reward the need to provide comparable services to additional recipients who were initially attracted, in part, by the welfare program itself. In short, the very hallmark of State-local government–its diversity, its innovative practices and its potential for experimentation–seem to be far more relevant for public education than for public welfare. Indeed, Federal regulations accompanying public assistance grants not infrequently bear the stamp of "Papa knows best," while those accompanying education grants–except in the field of civil rights–provide wide latitude for and actually encourage experimentation. For public education, diversity in program levels–sufficient to avoid a uniform mediocrity but constrained to assure a slowdown in interstate economic competition–seems preferable.

It is precisely this element of diversity in program benefits among States that introduces the critical issue of locational pull and push–as actual and potential welfare recipients seek those areas offering the highest benefit levels and easiest eligibility requirements. At the same time, however, taxpayers seek to avoid the extra payments necessary to finance such programs since they see no resulting services to themselves and do not place welfare high in their value system. Thus, in the public assistance field, the diversity that exists as a result of State-local initiative works against the innovative approach and in favor of laggard States who find their caseloads reduced because of their meager programs.

Two further considerations stem from the locational argument. At the heart of the public welfare function is the decision to supplement the income of the poor; this is done by the redistribution of income. Because of their narrow jurisdictional reach and the limited actual or potential use of the individual income tax—the logical source of funds for redistribution purposes—State and local welfare efforts can be nullified by the interstate and interlocal migration of individuals.

Secondly, much of the migration that does take place is a response to better job opportunities. As such, it is a result of the transformation of the economy itself—away from agriculture to manufacturing and service occupations. This migration then originates from changes in the national economy brought about by the nation as a whole. For this reason, there is more than a national aspect of public assistance; there is a national origin. What remains, therefore, is to establish a national responsibility.

Fiscal effects. The combined effect of these two recommendations for the nation as a whole would be to relieve local budgets of $13 billion and to add $9 billion to State government revenue requirements (table 3). These calculations, which relate to 1967, assume an immediate rather than a phased State assumption of elementary and secondary school financing. With the solitary exception of Hawaii, local governments would find their financial responsibilities diminished while States would find their fiscal needs augmented. The magnitudes differ vastly among the States and localities reflecting, as they do, the widely disparate State-local financial patterns presently existing.

To meet their expanded revenue needs, State governments would undoubtedly have to tap the freed-up taxpayer capacity made available by the local government tax relief. In short, State income and sales taxes would to a significant extent replace local property tax dollars—a desirable achievement in itself. If this were the sole avenue available to States, just under 70 percent of the freed-up local revenues would have to be taken over by the States. Even so, the combined State-local tax requirements would, in 1967, have been reduced by about $4.0 billion. Thus the taxable capacity is there, though large-scale tax programs will have to be enacted to divert these resources to the State sector. Further, assistance by the Federal Government in the form of revenue-sharing with States and localities and the long-range nature of the State assumption of the education objective serve to assure the Commission that the financial shifts called for are attainable goals.

TABLE 3—EFFECT ON STATE AND LOCAL FINANCING OF 90 PERCENT STATE FINANCING OF ELEMENTARY AND SECONDARY EDUCATION AND 100 PERCENT NATIONAL FINANCING OF PUBLIC ASSISTANCE, INCLUDING MEDICAID,* 1967
(Dollar amounts in millions)

State and region	Required increase or decrease (–) in State revenue		Local revenue relief	
	Amount	Percent[1]	Amount	Percent[2]
United States	$8,992.3	23.8	$12,996.0	33.9
New England	572.4	26.5	848.3	37.7
Maine	48.0	29.4	58.2	40.9
New Hampshire	53.8	80.0	80.3	48.5
Vermont	30.0	31.1	35.1	62.9
Massachusetts	262.8	24.4	438.5	38.4
Rhode Island	20.2	11.8	44.9	31.6
Connecticut	166.5	28.1	213.2	38.3
Mideast	2,082.2	23.3	3,327.4	33.5
New York	780.9	16.8	1715.8	32.2
New Jersey	513.1	60.4	824.3	38.7
Pennsylvania	488.6	23.5	881.3	34.6
Delaware	4.7	2.7	10.2	14.8
Maryland	234.9	31.8	303.3	42.6
Dist. of Columbia	—	—	13.3	4.2
Great Lakes	2,299.1	33.3	2,959.1	38.7
Michigan	329.3	17.9	495.4	29.6
Ohio	618.4	44.0	754.5	39.0
Indiana	302.9	31.4	331.4	34.8
Illinois	748.4	45.4	982.6	42.9
Wisconsin	300.1	28.3	395.2	50.6
Plains	1046.7	35.5	1,277.5	38.5
Minnesota	244.7	30.1	317.1	38.9
Iowa	229.2	42.0	287.2	45.6
Missouri	206.5	29.4	283.6	33.5
North Dakota	48.2	28.8	54.1	48.4
South Dakota	51.7	43.2	58.7	44.8
Nebraska	109.7	60.5	123.8	37.4
Kansas	156.8	37.0	183.1	41.3
Southeast	900.1	11.9	1,224.3	23.8
Virginia	208.0	27.1	225.3	30.1
West Virginia	45.4	13.7	61.3	35.5
Kentucky	90.2	8.8	81.1	23.5
Tennessee	94.4	10.4	118.9	25.1
North Carolina	52.1	5.4	86.1	19.5
South Carolina	24.1	5.2	33.5	18.0
Georgia	60.0	7.8	93.7	16.1
Florida	239.1	24.1	271.2	22.5
Alabama	23.3	4.1	53.8	19.8
Mississippi	37.8	10.2	52.2	20.5
Louisiana	31.8	3.5	90.8	23.6
Arkansas	34.1	10.8	58.8	31.9
Southwest	613.8	18.2	677.3	28.4
Oklahoma	83.0	15.8	147.4	42.6
Texas	336.3	20.4	414.6	25.4
New Mexico	7.3	2.6	18.5	15.7
Arizona	86.9	23.6	96.7	33.2
Rocky Mountain	320.7	31.7	401.6	42.4
Montana	61.4	48.6	71.8	48.9
Idaho	29.8	19.5	35.7	31.0
Wyoming	24.8	31.0	28.5	38.2
Colorado	159.7	37.2	209.9	45.8
Utah	44.9	20.0	55.8	37.5
Far West[3]	1,342.0	24.8	2,316.7	34.2
Washington	61.1	8.8	128.9	24.0
Oregon	153.0	38.4	181.6	42.9
Nevada	23.4	23.0	27.3	22.1
California	1,104.6	27.6	1,981.0	34.7
Alaska	9.2	8.6	12.8	29.4
Hawaii	–13.7	–6.2	—	—

*As the Medicaid program becomes fully operative in all States, the effect of National Government assumption of full financial responsibility for public assistance *including* Medicaid will become more pronounced. In fiscal 1967, the State and local expenditure for Medicaid was about $1 billion; in fiscal 1968 it had increased to $1.7 billion.

[1] Required increase as a percent of State general revenue from own sources.

[2] Local revenue relief as a percent of local general revenue from own sources.

[3] Excluding Alaska and Hawaii.

Source: U.S. Department of Health, Education, and Welfare, Social and Rehabilitation Service, and Office of Education, *Digest of Educational Statistics, 1967*; and U.S. Bureau of the Census, *Governmental Finances in 1966-67*.

Equalizing Educational Opportunity

Recommendation No. 3—State Compensation for "Municipal-Overburden" in the Absence of Substantial State Support for Schools

In States that have not assumed substantially full responsibility for financing education, the Commission recommends that they construct and fund a school equalization program so as to extend additional financial assistance to those school districts handicapped in raising sufficient property tax revenue due to the extraordinary revenue demands made on the local tax base by city and county jurisdictions.

State school support programs are underpinned by an assumption that becomes more questionable with each passing day—the proposition that if two local school districts have the same amount of equalized full value assessment behind each student, they then have the same capability to raise tax revenue for school purposes. It is quite conceivable, for example, that a high income suburban school district and a central city district might have tax bases with approximately the same amount of full value assessment behind each of their students, yet due to "municipal overburden" the central city school district could not begin to exploit its tax base for educational purposes to the same degree as the suburban district.

The "municipal overburden" stems from the fact that the central city is forced to put first things first—thus the demands of law and order and poverty related needs are reflected in extremely heavy outlays for police, fire, sanitation and public health services. As much as two-thirds of all local tax revenue in the central city therefore may have to go for these "custodial" type services while many suburban districts with relatively light municipal demands can put two-thirds of their property tax revenue into the "developmental" area—education. Thus municipal overburden and the generally lower income of central city residents place powerful constraints on the ability of central city school boards and make it virtually impossible for them to maintain the same educational opportunities as their suburban neighbors.

The case for recognizing municipal overburden in State school aid programs is further supported by the fact that no longer is it possible to view education as completely divorced from all other local governmental functions. The experience with Federal "Title-I" money of the Elementary and Secondary Education Act of 1965 and experimental programs in central cities show that public schools by themselves cannot overcome deep seated social and economic problems. Educators have begun to exhibit deep awareness of the need for coordinating school programs with welfare, health and other essential social services provided at the local level. In view of the need for such activities and their impact on the environment in which the learning process operates, the demand they make on local resources should be recognized in the measure of local ability to support public schools.

Michigan has demonstrated the feasibility of including in its education equalization formula a factor that will assist those localities plagued by extraordinary non-educational expenditures. If the *total* tax rate applicable in a district is 125% or more of the total tax rate for the rest of the school districts, its valuation for educational equalization aid purposes is reduced proportionately, thereby increasing its portion of aid monies.

Some may object to this proposal for building "municipal overburden" into a State school aid program on the grounds that it is "back door" financing of City Hall. They favor the "front door" approach—if the central cities are overburdened, then they argue the State should provide direct aid for hard-pressed municipalities. Others, however, take the position that the critical need is for the State to recognize municipal overburden. If State aid can be delivered to the front door—fine; if that approach is not politically feasible, then go the back door route—by building a municipal overburden factor into the school aid program.

Health and Hospitals

Recommendation No. 4—Greater State Use of Equalization in State Aid for Public Health and Hospital Programs

To avoid disproportionate tax efforts by poorer local jurisdictions, the Commission recommends that greater reliance be placed upon provisions to equalize among local jurisdictions in terms of fiscal capacity, need and tax effort to govern the distribution of State aid for public health and hospital programs.

The financial practices of State governments in aiding public health and hospital services reveal that with few exceptions those States using intergovernmental transfers take no cognizance of the variations in local fiscal capacity. While the use of intergovernmental transfers is relatively limited—amounting to $185 million for public health and $115 million for public hospitals in 1967, a large but undetermined amount of which comes from the Federal Government—equalization provisions would help to gear this State financial assistance predominantly to those jurisdictions where needs and resources diverge most sharply. Furthermore, differences in tax rates to finance comparable programs would be avoided.

While greater equalization would help the poorest areas of a State provide more adequate personnel and facilities, financing from service charges, fees and third party payments may help mitigate tax pressures in these areas. The Commission believes, however, that where public health and hospital facilities are currently financed from State as well as local resources, explicit recognition of variations in local fiscal capacity would tend to provide more comparable facilities throughout the State without requiring disproportionate tax efforts in poorer jurisdictions.

Highways and Mass Transportation

Recommendation No. 5—Revamping the Federal Highway Aid Program

The Commission recommends that the Federal-Aid Highway Act be revised to replace the existing primary, secondary and urban extensions program with a new system aiding development of State highways, urban major street and highway networks, and rural secondary highway systems, together with provision for coordinating street and highway development with mass transportation facilities in urban areas.

Because the Federal Government has an important financial and policymaking role in the highway field, the Federal aid highway program cannot be ignored in an assessment of State highway aid to local governments. The development of a highway system was recognized as a national problem in 1916 when the Federal aid highway program was enacted as a 50-50 Federal-State partnership. Together with the massive interstate highway construction program started in 1956, 90 percent financed by Federal funds, this partnership is now completing a network of high-speed highways from coast to coast and from border to border.

Now that the planned interstate system is nearing completion, the attention of the nation is turning to the problems of urban transportation. The need for a balanced transportation program in the urban areas—coordinating streets and highways with bus, rail and other modes of mass transit—is expressly recognized in Federal legislation and has spurred the establishment of a United States Department of Transportation. Eight States have established similar agencies and others are considering such a move.

Currently the Federal Government finances almost one-third of highway costs, the States about one-half, and local governments about one-fifth. Almost three-fourths of the non-Federal financing for highway construction and maintenance comes from State funds—both in direct State spending and in aid to their localities. However, despite the much higher costs involved in urban streets and the recent shift in emphasis by Federal and State highway officials toward urban road and transportation needs, State programs reveal a strong rural focus. Two-thirds of all State highway aid is for counties and rural townships and, except for the urban extensions of the State primary and secondary systems, all direct State highway construction and maintenance is in the rural sectors. Yet although the Federal Government is now helping local governments finance mass transit facilities, only a handful of States are doing so.

The Commission is convinced that, just as the Federal, State and local governments have joined forces over the past century to build the intercommunity and interstate highway network, so must they now focus their attention on the critical problem of intra-urban transportation.

We have not, in the context of this study, considered the alternative to State financial aid—State assumption of responsibility for highway construction and maintenance. *We would, however, urge each State to consider the appropriate division of such responsibility following a detailed study and functional classification of its highway system.* A national framework for such a classification is being developed by the Federal Highway Administration as a basis for updating the present highway systems and developing the needs for and the benefits to be derived from future highway investments. As each State, in cooperation with its local governments, develops its functional highway classification, it can determine the appropriate administrative roles to be assigned to the State highway agency, the counties and cities or, in metropolitan areas, to some regional grouping of local governments.

For highways not in the Interstate System, the present method of providing Federal aid inhibits coordinated development of highway systems by encouraging States to develop route designations according to the funds awarded under allocation systems which do not adequately represent today's needs. Moreover, it distributes funds to States with widely varying standards for the classification of routes.

The Federal grant program for the primary system was established in 1921. In determining the basis for allocation it excludes routes in urban areas, on the Interstate System, and in some other categories with the result that mileage not creditable to the allocation plan ranges from 5% in North Dakota to 82% in Rhode Island.[1] Under Federal aid for the secondary system, coverage, which is determined according to criteria established by the various States, ranges from 3% of all road mileage in Wyoming to 35% in North Carolina.[2] As a result of these allocation systems, aid is often distributed on an individual project basis without regard to development of comprehensive route systems.

Problems are particularly acute in urban areas because Federal aid for such uses has been limited by statute to 25% of the total available for non-Interstate routes and generally must be applied to routes which connect to primary or secondary systems outside the urban area. Prior to 1968, major routes for movement of traffic *within* urban areas received no Federal aid unless designated as extensions of primary or secondary roads. With enactment of the Federal-Aid Highway Act of 1968, there is now limited Federal assistance for traffic facilities not on the primary and secondary systems under the TOPICS program (Urban Area Traffic Operations Improvement Program), which provides for traffic engineering and minor reconstruction projects.

To promote orderly development of highway systems, funds now allocated under the primary, secondary and urban extensions (ABC) program should be distributed under a formula that recognizes a new functional classification of State, urban and rural routes. The State system would support intrastate routes both inside and outside urban areas. It would include the present Interstate system and routes on the primary system with its urban extensions and any other routes planned for movement of intercity traffic. This system would be planned and constructed by the States in consultation with planning agencies of affected jurisdictions.

The urban system would support development of street and highway systems for moving traffic within urban areas. It would include extensions of the present secondary system and other major streets and highways for moving traffic within urban areas. Although Federal funds would be channeled through States, the urban system would be planned by the comprehensive transportation planning unit for each urban area. The urban transportation planning unit could set priorities for improvement of urban highway systems in conjunction with improvements for mass transportation and other community development plans. Such coordination would greatly improve urban highway development.

The rural system would aid major traffic routes in rural areas similar to the present secondary system and, with a more uniform classification among the States, it would be planned and constructed by States with involvement of local planning units.

Recommendation No. 6–State Financial Participation in Urban Mass Transportation

The Commission recommends that urban States develop a mass transportation plan and that in addition to providing technical and financial assistance to metropolitan areas with regard to the planning of mass transportation facilities and services, the States furnish financial assistance toward the improvement, acquisition and operation of such facilities.

The critical need for adequate mass transportation facilities in our urban areas has been well documented. The daily struggle of the urbanite and the suburbanite to reach his downtown office is stark evidence of the fact that drastic measures must be taken. Moreover, efforts to improve the lot of the underprivileged inner city residents are inextricably tied to the provision of reasonably priced mass transit. All too often the poor are restricted by the lack of adequate transportation in their quest for gainful employment.

In one of its earliest studies, the Commission pointed to the need for State technical and financial assistance to the metropolitan areas in planning mass transportation facilities and services.[3] The Commission noted in that report that "due to fragmentation of responsibility among various units and the lack of coincidence between service needs and tax jurisdictions, it is frequently impossible for local government to assemble effectively the technical and financial resources required for meeting the service needs of metropolitan area residents."[4] This situation is at least as serious now as it was eight years ago.

The post war decline in the use of mass transit facilities is continuing, as automobile ownership increases. Private operation of bus and rail facilities is becoming less profitable and many communities are faced with the prospect of either losing what mass transit facilities they have or buying out the private operators.

The public cost of acquiring, modernizing, and expanding mass transportation facilities can be counted in the billions of dollars. Among the largest metropolitan areas only five now have rail mass transit facilities (Boston, Chicago, Cleveland, Philadelphia and New York). The San Francisco metropolitan area is now constructing a rapid transit system that will cost well over $1 billion when completed, and the cost of the proposed rapid transit system for the Washington, D.C. metropolitan area is projected at $2½ billion. Other large cities, including Atlanta, Baltimore, Los Angeles, and Seattle are currently considering the construction of rail transit systems.

It is generally agreed that rail rapid transit is suitable only for densely settled metropolitan areas–those with more than a million inhabitants. There are now 30 such areas and more will be added to the list in the coming years. For smaller communities, mass transportation involves extensive use of multi-passenger vehicles–buses, jitneys, etc.–and related facilities. As noted, some have already had to acquire and expand privately operated bus systems. Many need new and additional equipment. Of the 104 urban mass transportation capital grant projects approved for Federal aid as of December 31, 1968, 72 were for the acquisition of buses and related facilities at a cost of about $130 million.*

Although a substantial portion of the funds needed for mass transportation facilities will necessarily come from local sources and, to a lesser extent, the U.S. Department of Transportation,** financial aid will also have to come from the States. Increasing the urban share of State highway-user funds and authorizing local governments to apply some of those funds for coordinated highway and mass transportation projects (as discussed in the two recommendations that follow) will help, but it will be far from sufficient. Five States–Maryland, Massachusetss, New Jersey, New York and Pennsylvania–now recognize the need to assist substantially in financing urban mass transportation facilities. Other urban States, in partnership with their localities and the Federal Government, will have to devote some of their bonding capacity and tax resources to solving the urban transportation crisis.

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*Most of the remaining 32 projects were for rail transit facilities in the few areas now constructing such systems, involving expenditure of some $750 million–an indication of the massive requirements for rail facilities.

**About $1/2 billion in Federal aid had been committed under the Urban Mass Transportation program by the end of 1968 and annual grants have been authorized of $150 million for fiscal 1969 and $175 million for fiscal 1970.

Recommendation No. 7–Allocating State Resources for Highways–the Need for a Better Urban-Rural Mix

The Commission recommends that States so structure their formulas for allocating the proceeds of highway-user taxes among units of local government as to insure a proper balance between urban and rural highway requirements. In order to recognize more adequately urban highway needs and financial ability, the States should allocate their resources to reflect such factors as service level needs, population, accident rates, commuter patterns and fiscal ability.

This recommendation calling for a better balance in meeting urban and rural highway needs reflects the fact that States have made remarkable progress in the last 50 years in overcoming the tremendous rural transport deficit–the need to get the farmers out of the mud. Now that most States have created both a fairly effective farm to market road system and an intercommunity highway linkage, it is necessary to bridge the urban transportation gap.

The case for funneling more State highway-user dollars into urban areas generally–and municipalities in particular–rests in part on the finding that while municipalities account for about half of all vehicle road usage, these jurisdictions receive only about one-third of State highway resources. Moreover, service level needs are greater in urban areas. Due to their more intensive use, urban highways must be of a distinctly higher quality than rural facilities–a factor further complicated by the price differentials of construction, maintenance, labor and access costs. As a result, it costs three to five times as much to construct urban streets as rural highways.

Some States have taken steps in recent years to increase the share of State highway-user revenue going to municipalities and this trend should be continued. Thus, not only will States have to provide additional funds to deal with the urban mass transportation problem (as called for in Recommendation 6), they will also have to share more of their highway-user revenue with their municipalities.

As people continue to concentrate in the areas surrounding central cities, city streets must bear an ever-growing traffic burden. Municipalities are faced with increasing construction and maintenance costs in order to keep this traffic flowing–costs which have not generally been taken into account in formulas under which highway-user funds are allocated. To correct this imbalance between rural and urban highway aid, allocation formulas should reflect actual needs as measured by such factors as service level needs, population, commuter patterns, and accident rates.

Undoubtedly, much of the "skewing" of State aid in favor of rural areas stemmed from a desire to "equalize" rural-urban living standards and resources. Prior to World War II at least, cities were considered the centers of affluence, and most rural areas were characterized by a paucity of taxable resources. State legislative policymakers, therefore, refused to accept usage as the sole criterion for the allocation of State highway aid money.

Thus, this recommendation makes explicit the need for both program and fiscal equalization. Only in this way can the legitimate needs of both the rural and urban interests be reconciled.

Recommendation No. 8–Amendment of State Constitutional and Statutory Anti-Diversion Provisions

The Commission recommends that State constitutional and statutory provisions as to the use of State highway-user revenue be amended to allow localities, particularly in the larger urban areas, flexibility to apply such funds to broad transportation uses in order that they may achieve a balance between highways and other modes of transportation.

Twenty-eight States now have so-called "anti-diversion" provisions in their constitutions requiring that all or part of their highway-user taxes be earmarked for highway purposes only. Most of the remaining States provide for such earmarking by statute. Earmarking provisions may have been appropriate in the early years of development of the nation's highway system when there was an urgent need to facilitate the use of the automobile. Without doubt these provisions contributed to the development of the nation's first-rate highway system.

Transportation needs, however, have changed. The specter of clogged city streets fed by multi-lane highways is commonplace. Goods and people no longer flow easily along the city streets and an urgent need exists to supplement highways with mass transportation facilities in many metropolitan areas. In most of the very largest urban areas–the 30 metropolitan areas with over a million population–construction, expansion and improvement of rail transit is required. In most smaller communities, acquisition or modernization and expansion of bus systems may be the preferred approach. Development of these mass transportation systems of differing types will undoubtedly necessitate a large-scale infusion of funds by all governmental levels–local, State, and Federal.

There is general agreement on the proposition that it is essential for highway and mass transportation facilities in the cities and their environs to be coordinated. Transportation planning must take into account not only the means of getting people into the cities, but the means of moving them once they arrive there. It must also take account of the potential displacement of dwellings and the effects of street and highway work on the physical appearance of the city.

Transportation is no longer simply a matter of highway construction. The Federal Government recognized this when it established the Department of Transportation and more recently with the transfer to it of the Mass Transportation Program from the Department of Housing and Urban Development.* Eight States have taken similar action. All but the least urbanized States must recognize the need for balanced urban transportation. A beginning can be made by repealing antidiversion amendments, thus making possible the deployment of highway-user funds to urban mass transit problems.

The chief argument in favor of earmarking highway funds is that these taxes should be applied to facilities that benefit those who pay the levies–the highway users. Indeed, motor vehicle taxes and user charges are classic examples of the "benefits-derived" theory of taxation. Nonetheless as actually employed, the earmarking of such funds has ignored the interdependencies among various types of transportation. The social costs of traffic congestion and the sheer waste of time involved may best be alleviated by mass transportation–a result that would also benefit those who continue to use their automobiles. Accordingly, this recommendation calls for a recognition of such interdependencies by broadening the purposes to which highway-user funds may be allocated–permitting their use for transportation planning and for mass transit in urban areas, as well as for streets and highways.

Some argue that broadening the uses of highway funds to include mass transit should be weighed against fuller exploitation of user charges. Conceivably, user charges could be devised to adequately reflect all costs–including social–imposed by highway users. The critical point, however, is recognition of these interdependencies. These two approaches need not be considered on an "either-or" basis but rather as complements. While broader use of highway funds seems more practical than a "pricing-out" of congestion costs, a more imaginative application of user charges to reflect all relevant costs may also contribute toward better transportation systems.

General Legislative and Administrative Policy Issues

Recommendation No. 9–Organizational Requisites for an Effective State-Local Fiscal System

In order to create a policy environment conducive to the development of an effective State-local fiscal partnership, the Commission recommends that each State undertake to: (1) codify all State aid plans; (2) review and evaluate periodically all State aid programs in terms of their capacity to meet fiscal, administrative, and program objectives; (3) develop in conjunction with the planning and budget officials an information system with respect to local fiscal needs and resources; and (4) evaluate all Federal aid programs in terms of their compatibility to State aid objectives and their fiscal and administrative impact on State and local programs.

Largely in response to recurring local fiscal crises, the demands of property owners for tax relief and a proliferating variety of Federal financial incentives, States have constructed their aid systems in bits and pieces. This recommendation to systematize State-local fiscal relations and to make organizational provision for such a systematic approach specifically calls for an ongoing concern for the well being of our intergovernmental fiscal system. It vests in the State government a distinct responsibility for marshalling the necessary data and isolating the key issues for legislative and executive resolution.

In some States the Office of Local Affairs appears to stand out as the logical candidate for this task of developing a "systems" approach to State aid to local governments. In other States it may be appropriate to assign this responsibility, or parts of it, to a specially designated unit in the Office of the State Budget Director, the Finance Director, or the State Planning Office. Or, the legislature may prefer to retain this responsibility itself by assigning it to a joint legislative committee. Its location in the State government is, of course, a secondary issue. The critical need is for State policymakers to recognize that the time has come to fix responsibility for assembling the various State and local fiscal pieces and fitting them together.

The urgency of this need is becoming increasingly apparent. State and Federal aid dollars should operate systematically to strengthen local responsibility for public services while at the same time providing for an equitable distribution of public cost burdens and benefits. Identification of and planning for future needs depends upon intelligent forecasting of overall economic and social trends. It is essential that grant programs be responsive to these trends. The State's planning capability will depend in large part on its ability to utilize data for measuring not only program performance at the State level, but also comparative performance levels of individual units of local government. A comprehensive State-local information system stands out as a requisite administrative tool for evaluating the effectiveness of State aid (including Federal funds) to local governments.

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*It should be noted that the principle of a balanced transportation system has been enacted into Federal law on two recent occasions: in the Highway Act of 1962 which called for a continuous comprehensive transportation planning process in the metropolitan areas (23 USCA 134); and in the Intergovernmental Cooperation Act of 1968 which cites as one of the objectives for the sound and orderly development of both urban and rural areas "balanced transportation systems, including highway, air, water, pedestrian, mass transit, and other modes for the movement of people and goods" [P.L. 90-577, Sec. 401(a) (3)]. Yet, the U.S. Code still contains a provision, harking back to 1934, which enunciates in no uncertain terms the principle that highway-user taxes must be applied to highways only [23 USCA 126(a)–the so-called Hayden-Cartwright anti-diversion amendment].

The information system should be designed to provide State policymakers with pertinent data relating to program needs and results, local fiscal capacity and tax effort, fiscal viability of local governments, grant consolidation potential, and other comparable data.

The point must be emphasized that these State functions should encompass the examination of *all* Federal aid programs, those that bypass the States as well as Federal assistance programs that have no direct tie-in with the local government structure. Only by taking this broad approach is it possible to evaluate comprehensively the fiscal, administrative, and program impact of various Federal assistance programs on the State-local structure.

By the same token, State policymakers must evaluate not only the fiscal but also the administrative and program aspects of the State's aid programs to local governments *and* school districts. The massive school aid program must be evaluated not merely in terms of its fiscal objectives–equalization, stimulation, and financial support–but also in terms of educational outcomes. Increasingly, State legislative bodies will be demanding evidence that State aid dollars are improving the quality of educational offerings as well as reducing the pressure on the local property taxpayers. The same necessity exists for highway programs and for the increasing State aids to urban development. All of these must be viewed in both program and fiscal terms.

The State agency or agencies carrying out these functions of central management, especially if "professionalized," could conceivably have a certain negative value–it would be more difficult to ram through mischievous State aid policies. For example, there would be less likelihood that a State would embark on a plan to share its personal income tax with local governments on the basis of the taxpayer's residence. It would be quickly pointed out–with the proper price tags attached–that such a proposal would magnify inter-local fiscal disparities and legislators and others from the poorer jurisdictions would have an opportunity to voice their objections. In other words, the central management functions proposed here would help ensure the viewing of all relevant sides of a State-local fiscal issue prior to final action by the Governor and the legislature.

Recommendation No. 10–Criteria for Assessing Local Government Viability

In order to avoid bolstering ineffective local units of government with State aid and to move toward a more orderly system of local government structure, the Commission recommends that States enact legislation setting forth specific criteria for assessing the political and economic viability of their local governments–special districts and school districts as well as units of general government–such criteria including but not being limited to (a) measures of fiscal capacity to raise revenues adequately and equitably; (b) measures of economic mixture such as minimum or maximum proportions of residential, industrial or other tax base components; (c) measures of minimum population and geographic size sufficient to provide an adequate level of service at reasonable cost; and (d) other appropriate measures designed to reconcile competing needs for political accountability and community cohesiveness on the one hand with those for variety and reasonable balance in economic and social composition on the other.

Critics of State aid policies have frequently claimed that these assistance programs tend to perpetuate local governments that are not capable of providing public services in an efficient manner. The need for developing criteria of local government viability becomes even more apparent considering the urgent demands currently faced by the State sector. Moreover, as the ultimate source of power and authority for local government, States have the responsibility to ensure that the cost and benefits of local government are distributed equitably across the body politic.

Concern with the appearance in recent years of a set of lopsided communities in metropolitan areas displacing economically and socially balanced communities led this Commission in 1967 to recommend that each State establish an agency empowered to force the dissolution of "nonviable" jurisdictions.[5] In making this recommendation a number of factors to be considered in evaluating viability were pointed up:

- Local governments should have broad enough jurisdiction to cope adequately with the forces that create the problems which the citizens expect them to handle;
- Local governments should be able to raise adequate revenues and do it equitably;
- There should be flexibility to adjust governmental boundaries;
- Local government areas should be adequate to permit them to take advantage of the economies of scale; and
- Local governments should be accessible to and controllable by the people.

The specific criteria to be applied will depend upon the particular situation in each State and the kinds of measures that can be developed. The following are offered for consideration.

Community self containment. A local unit of government should possess a reasonable degree of self containment, as indicated by a combination of historical, geographic, economic and sociological characteristics, such that some sense of community already exists and shows promise not only of continuation but hopefully of further development.

Finding a measure to implement this criterion presents difficulties but at least one can be suggested. From the Decennial Population Census it is possible to establish for municipalities a normative relationship between the working population and the residential population in the community. Preliminary investigation of 1960 Census data for major metropolitan areas shows that on the average, about half the resident work force of satellite cities of 50,000 plus travels elsewhere to work, while about half the persons employed in such cities travel in from a residence outside. In localities where such in- and out-commuting makes up the bulk of all employment the community would receive low marks on the "self-containment" criterion.

Community balance. A local unit of government should allow the inclusion of diverse interests within its boundaries so as to achieve a reasonable balance and should give promise of remaining so in the foreseeable future. The distribution of individuals and families by income level provides one basis for judging the balance among interest groups in a local governmental unit. An outstanding characteristic of the urban complex is its agglomeration of political units in which individuals and family units have essentially similar educational, sociological, and economic characteristics—"birds of a feather flocking together." The Commission has described the impact of this breakdown of balance in its reports on ***Metropolitan Social and Economic Disparities*** and ***Metropolitan Fiscal Disparities***. Income distribution data are available from the Decennial Census of Population. Jurisdictions with distributions at wide variance from that found in the county or region as a whole are unlikely to be responsive to the diverse interests in the wider community of which they are a part.

In Number 10 of the ***Federalist Papers*** James Madison argued in favor of a community that is sufficiently large to enable the inclusion of a wide variety and number of interests. The size of the community is a measure of safety against domination by any particular group. In the large community, majorities can be produced only by compromise and accommodation among a variety of groups. This "Madison thesis" needs to be borne in mind in the assessment of the viability of communities.

Fiscal capacity. Every locality should possess an adequate tax base, thereby reducing and simplifying the task of the State in evening out local fiscal disparities.

Measures of both fiscal adequacy and inadequacy are necessary here because jurisdictions that possess either an abundance or paucity of local tax resources fail to fulfill the spirit of this criterion. Rich industrial or residential enclaves that skim the cream off the local resource base can contribute as much as poorly endowed jurisdictions to the necessity for and complexity of State equalization aid requirements.

States already have or can readily develop property assessment information which would permit judgments to be made on the financial adequacy of local units. For example, assessment records could be analyzed to develop for the State as a whole, or on a regional or county basis, the relationship one might expect to find between residential and commercial and industrial property. Significant deviation from the "norm" would then indicate a fiscally unbalanced community. It might well be argued, for example, that in a "balanced" community the residential component should comprise somewhere between 40 and 60 percent of the total local tax base. Thus, wide deviations from this norm would become a matter of concern. It would reveal, for example, the presence of an industrial enclave or bedroom community.

Performance record. Every locality should be so constituted as to perform public services with reasonable efficiency—that is, be able to take advantage of economies of scale, specialization of labor, and the application of modern technology.

Because of their heavy financial involvement in education some States have shown no hesitancy in pushing localities toward public school systems of sufficient size to promote the use of modern facilities and equipment and specialized instructional and auxiliary personnel. Nationally this has had a dramatic effect, for the last quarter of a century has seen a reduction in the number of independent school districts from over 100,000 to about 22,000. Still there remain a half dozen States with more than 1,000 school districts each and another ten States are divided into 500 to 1,000 school districts each. Some of those 16 States have made great strides during the past five years in consolidating small school districts into viable units. This trend is to be applauded—as is continued State effort along such lines.

For units of general government, this kind of thrust from the State for efficiency has been largely lacking. In both urban and rural settings, there remain incorporated entities—townships and villages—so small and so weakly organized that they do not need the services of even one full-time employee. The ability to employ a minimum number of full-time employees sufficient to provide an adequate level of service is a reasonable viability criterion. Local government employment and payroll data are published by the Bureau of the Census.

Particularly discouraging has been the proliferation of special districts, mainly of the single-function variety, over the past 25 years—from about 8,000 in 1942 to some 21,000 in 1967. Many of these districts were established expressly to evade constitutional and statutory debt or tax limits with little or no public control or political responsiveness. Many perform functions that duplicate activities of general units of government or that could be performed more effectively by municipal or county governments. In an earlier report this Commission took a position favoring general units of government over special districts.[6] We reiterate that stand and again urge the States to take a hard look at their special districts with a view to restraining their formation and continuance.

There is considerable interplay among the listed measures and no single criterion may be adequate to the task of determining viability. There are, in addition, other factors—such as geographic area and population size—that could be developed into viability criteria by a legislature.

Whatever the criteria, it seems evident that distinctions would necessarily need to be drawn on the basis of the type of governmental unit. Criteria applicable to county units are not likely to be suited for application to incorporated units. Cities may need to be distinguished from other incorporated units such as villages and towns. And, as noted, special rules have to be applied to school districts and special districts.

The need for establishing viability criteria for local units of government was effectively articulated by the Ontario Committee on Taxation.

> Local autonomy has ever been a cornerstone of municipal institutions in this province. We consider ourselves second to none in our espousal of this principle which has served so long and so well in promoting democratic values within a framework of decentralization. But if local autonomy is to remain a reality, the institutions it fosters must be worthy of its challenge. Local autonomy, precisely because it stresses the importance of strong municipal institutions, is not a haven for municipalities and school boards so small and weakly organized that they cannot discharge their functions in acceptable fashion. Again local autonomy, which is a bastion of responsive and responsible government, cannot condone the multiplication of *ad hoc* special service authorities removed from the immediate arena of the political process.[7]

This Commission is fully aware of the inherent difficulty of reconciling the competing needs for accountability and community cohesiveness on the one hand and those that call for a jurisdiction large enough to embrace a wide variety of social and economic groupings. The clustering together of millions of persons within a number of our metropolitan regions necessitates rethinking many of our institutional and public administration dogmas. The Commission has attempted to reconcile these competing forces by urging greater attention to the need for community cohesiveness with its recommendation for the creation of neighborhood subunits of government (*Fiscal Balance in the American Federal System*). In the very same report, the Commission noted the imperative need for expanding the local fiscal base with its recommendation for resort to a metropolitan-wide school taxing district when interlocal disparities in school financing reach extreme dimensions.

In summary, the Commission emphasizes that this entire problem of local government viability must be faced and kept continually in mind by Governors and State legislative leaders as new State-local fiscal programs are conceived and implemented. A lack of resolution at the beginning becomes increasingly hard to rectify as the program matures and each passing year "sets the concrete" even harder.

Recommendation No. 11—State Standards for Categorical Grant-in-Aid Programs

The Commission recommends that in enacting or modifying functional grant-in-aid legislation, States include not only fiscal standards such as those establishing accounting, auditing and financial reporting procedures; but also, to the maximum extent practicable, performance standards such as minimum service levels, client eligibility, and where appropriate, guidelines for citizen participation such as the holding of public hearings.

The States were turning over to their local governments almost $20 billion in fiscal 1967 to help provide a variety of services and the total is probably approaching $25 billion now. On the average, this represents over one-third of State spending and in some States, aid to local governments runs to 40 and 50 percent of the State budget. A major thrust of the Commission's recommendations in this and preceding reports is in the direction of still more State financial involvement in local government problems.

The reasons for recommending an enlarged State role go beyond the fact that States have better access to tax resources than do local governments. It is our firm conviction that only through massive State involvement can all citizens in a State, regardless of their geographic location, be provided with the quality of public services to which they are entitled and only by marshalling the regulatory and other police powers of the State can the crisis in the cities be confronted.

We stress the need for both fiscal and program performance standards. Just as the States are required to account to the public as to their stewardship of public funds by setting up accounting, auditing and reporting procedures, so should they require a similar accounting from the local governments to which they entrust State funds. But, just as important, the States need to make sure that funds are being put to the program uses for which they are intended, that the aided services are provided at the intended level of quality, and that acceptable operating procedures are applied.

Establishment of specific performance standards in functional grant-in-aid legislation serves a number of purposes. Performance standards are needed by local program administrators as a basis for establishing procedures to carry out the program in accordance with the intent of State policymakers. By the same token, those charged at the State level with reviewing and evaluating grant programs (as called for in Recommendation No.9) need standards in order to measure results against intended goals.

The specific nature of the standards to be included in grant legislation will, of course, depend upon the program itself. Minimum service level standards in the education area have been well developed—pupil-teacher ratios, teacher certification requirements, length of school year, and the like. For welfare programs, standards are used as to personnel administration on a merit basis, client eligibility standards and client need measures, among others. As States move into new urban development programs, many of which can have an impact on entire neighborhoods, it will be necessary to spell out some of the benchmarks for citizen participation, including the holding of public hearings, before programs are actually initiated or projects undertaken.*

Increasingly, however, the traditional "input" standards for measuring program performance will be supplemented by "output" criteria. In the field of education, State legislators will place more weight on student achievement tests and perhaps less emphasis on pupil-teacher ratio measures. Moreover, in the field of welfare, more attention will be directed to measuring the success of local efforts to help individuals and families regain self-sufficiency.

Federal grant-in-aid programs, most of which channel funds through the States, generally include performance standards to insure that their purposes are carried out in accordance with legislative intent. State standards for related programs should, of course, be compatible with those of the Federal Government.

The growing public support for "revenue sharing" can be traced in no small part to the fact that the Federal Government in particular has tended to err on the side of specificity of standards. There is always the inherent danger then that those who define categorical aid programs will tend to underestimate the ability of local policymakers to discharge their responsibilities efficiently. It must be conceded that virtually every attempt on the part of State legislators to wring the maximum amount of benefit from each State aid dollar represents a diminution of local control over the allocation of resources. Therefore, in charting the policy for categorical aid programs, State legislators must steer a middle course between extreme specificity on the one hand and an extremely permissive policy on the other.

Recommendation No. 12—Conformance of State Aid Programs to Comprehensive and Functional Planning Objectives

In order to maximize the effectiveness of State grant-in-aid programs and to assure that such programs will promote statewide economic, social and urban development objectives, the Commission recommends the adoption of and inclusion in such programs of appropriate requirements for conformance of aided facilities and activities to local, regional, and statewide plans.

Generally, State grant-in-aid legislation should (a) use a common definition of comprehensive plans, incorporating the necessary human resource, economic and physical development components; (b) require that there be local functional plans to which major State aided projects and programs can be related; (c) provide for the proper relationship of functional and comprehensive plans and planning for various geographic areas and specify a review procedure; and (d) provide that required plans use a common data base.

States should make sure that local programs and projects aided by State dollars conform to State and areawide planning objectives. It should be noted that the Federal Government already has planning conformance requirements for highways, urban renewal, open space and recreation land, and hospitals. In addition, the Federal Government requires the review by a metropolitan planning agency of all local applications for Federal assistance for most major public facility grants in metropolitan areas.

Obviously, Federal and State planning requirements should not conflict, and compatible definitions of plans and planning jurisdictions should be used. In this connection, the Commission urged standardization and consolidation of Federal aid planning requirements in its report, *Fiscal Balance in the American Federal System*.

To help assure that State financial assistance to local governments will contribute to statewide and area goals, produce programs and projects which complement one another, further developmental and urbanization goals of the State, and avoid overlap and duplication, a reasonable set of planning and review requirements should be incorporated in State aid legislation. There are very few State initiated planning and coordination provisions presently incorporated in such legislation.

As they enter an era of expanded aid to local governments and assume increasing responsibilities for channeling Federal aid, the States are presented with an unparalleled opportunity to establish systematic procedures for relating programs to one another and to overall State, regional, and metropolitan objectives. This can be done through general legislation tying regional and local planning and coordination into a statewide system. The States, exercising their constitutional responsibility, determine the general outline and many details for the specific structure and direction of urban growth. They must supply the guidance for local, metropolitan, and multi-county planning and development programs. The linkage must be established between relatively detailed local land use and human resource planning efforts on the one hand, and broader regional and national objectives on the other.

For State planning and urbanization policy to become fully effective there also must be a linkage with multi-county and metropolitan area plans and with local plans and development measures having an impact outside the borders of the local government. A review and comment approach to local actions should be authorized and conformance to official plans and planning should be required. With these provisions, State policies can provide the guidance and direction necessary for realization of urban growth objectives.

To establish the necessary relationships, State grant-in-aid legislation should clearly specify the level of comprehensive and functional plans with which conformance will be required. This will serve to avoid gaps, duplication, and overlapping–that is to assure the existence of a hierarchy of comprehensive and functional plans of increasing specificity. Statutory language should require each aided facility or program to conform to the functional plan promulgated by the recipient jurisdictions, or if there is no such plan in existence, to the functional plan promulgated by the next "higher" and larger governmental unit. Thus if a city has no plan and the county in which it is located does, the plan of the county would govern. Such functional plans should be required to conform to the relevant comprehensive plan at the appropriate level which, in turn, should conform to comprehensive plans at the next level.

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*Not all programs, of course, require citizen participation in their implementation. Some State aid merely assists localities to carry out their ministerial duties. However, provision for citizen participation is essential for programs that have a direct impact on all or particular classes of citizens—for example, urban redevelopment; mass transit; location and relocation of highways.

Most States are large enough and contain enough economic, physical, and social diversity within their borders to necessitate some kind of regional planning organization. In some cases this may prove necessary only in metropolitan areas. However, States increasingly are finding it expedient to establish regional organizations for planning and development purposes. When such regional organizations assume responsibility for developing comprehensive plans to which local plans within their borders must conform, it is essential that a clear delineation of district borders be established. Only through this means will it be possible to identify the official comprehensive plan to which conformance is required. This will not only avoid the development of overlapping and conflicting comprehensive planning jurisdictions in the State, it can also eliminate the present confusion in the administration of Federal programs.

At the present time a district with one set of geographical boundaries may have the responsibility for areawide review of grants for Federal aid, another areawide planning agency with different borders may be receiving "Section 701" planning assistance from the Federal Government, and a third areawide planning agency with a still different geographic area may be the areawide planning organization to whose comprehensive plans various public facilities must conform to receive Federal aid. It is up to the States to take the initiative to eliminate this jurisdictional confusion both for their own State and local programs, and for the Federal programs.

Admittedly, requiring local plans to conform to regional, State and Federal planning objectives has a definite "centralist" thrust. To put the issue more bluntly, a price must be paid for more orderly urban development. This price is reflected in the length of time required to secure from officials at higher levels the necessary approval for local plans, the real expense in terms of local personnel effort consumed in developing and clearing their plans, and that real but intangible factor–the diminution of local autonomy. Moreover, the "pioneers" in planning conformance–the Federal policymakers–have thus far clearly demonstrated an inability to avoid conflicting and extremely complex planning conformance requirements.

Thus, as in the case of performance standards for categorical aids, State policymakers will have to steer a middle course between extreme specificity and a "law of the jungle" approach. Hopefully, States may develop planning conformance guides that serve not only their own interests but also become a model for emulation by the Federal Government. This is consonant with the visions held by the founders of the Republic of the States as "political laboratories" for the nation.

Footnotes

[1] U.S. Department of Transportation, *1968 National Highway Needs Survey* (U.S. Government Printing Office, Washington: 1968) p. 46.

[2] *Ibid.*, p. 48.

[3] ACIR, *Intergovernmental Responsibility for Mass Transportation Facilities in Metropolitan Areas* (A-4), April 1961.

[4] *Ibid.*, p. 50.

[5] ACIR, *Fiscal Balance in the American Federal System*, Vol. 2, "Metropolitan Fiscal Disparities" (A-32), October 1967, p. 14.

[6] ACIR, *The Problem of Special Districts in American Government* (A-22), May 1964.

[7] The Ontario Committee on Taxation, Vol. II, *The Local Revenue System*, 1967, p. 550.

Chapter III

Financing Local Schools— A State Responsibility

> It is not enough to have the finest school system in the country if the adjoining district has one of the worst. Ultimately the product of the weak district will dilute the prosperity of the more fortunate products of the excellent system. Correcting this kind of damaging inequity requires State action.[1]

Equality of educational opportunity represents one of the continuing challenges of our society. Although this responsibility rests ultimately with the States, most States have delegated it to local school authorities. The ability of local school boards to rise to the challenge depends largely upon the State-local educational financing arrangement. Without the requisite fiscal environment, the larger public goal is unattainable.

THE EDUCATIONAL OUTLOOK

Pupil Enrollments, Teachers and Costs

School finance until recently represented a crisis brought on by rising enrollment. In the 1955-65 decade, pupil enrollment climbed at the rate of three to four percent year after year (table 4). This stemmed from both the growth in school age population and a marked increase in the percentage enrolled in schools, particularly for the five year-old age group and the 16 and 17 year-olds. In 1947 just over half (53.4 percent) of the five year olds were enrolled in school (including kindergarten); by 1966, this percentage had grown to 72.8 percent. At the other end of the public school age group, 67.6 percent of the 16 and 17 year-olds were enrolled in school in 1947; by 1966 this percentage had grown to 88.5 percent. Thus, the schools succeeded in retaining the older ages and at the same time expanded their programs for the young.[2]

TABLE 4—ENROLLMENT IN PUBLIC ELEMENTARY AND SECONDARY SCHOOLS 1955-56 TO 1966-67 WITH PROJECTIONS FOR 1970 AND 1975 (in thousands)

School year	Number	Percent increase over previous year
1955-56	31,163	
1956-57	32,334	3.8
1957-58	33,529	3.7
1958-59	34,839	3.9
1959-60	36,087	3.6
1960-61	37,260	3.2
1961-62	38,253	2.7
1962-63	39,748	3.9
1963-64[e]	41,025	3.2
1964-65[e]	42,280	3.1
1965-66[e]	43,023	1.8
1966-67[e]	43,956	2.2
1970[e]	45,300	–
1975[e]	44,700	–

(e) – estimated

Source: Adapted from U.S. Department of Health, Education and Welfare, Office of Education, *Digest of Educational Statistics 1967* and *Education in the Seventies.*

Although enrollment will tend upward in the near future, a peak is now in sight. The long-term decline in the U.S. birth rate started to show in school enrollments for the 1963-64 school year. Annual increments since then have tended downward and by the end of this decade school enrollment will have passed its peak—about 45 million students.

On a State-by-State basis the enrollment picture will vary. A few States like California, Florida and Arizona will continue to experience population increases and enrollment growth. Other States can look forward to declines, although individual school districts within a State will find enrollments changing with their economic circumstances and the movement of population.

In response to the rise in enrollment during the 1950's and early 1960's, the number of public school teachers shot upward. The total will push beyond the two million mark by the end of this decade (table 5). Thus, instructional costs which now absorb the bulk—about 56%—of public school spending can be expected to rise.

Recently teacher organizations have demonstrated increased militancy in their salary demands—a situation

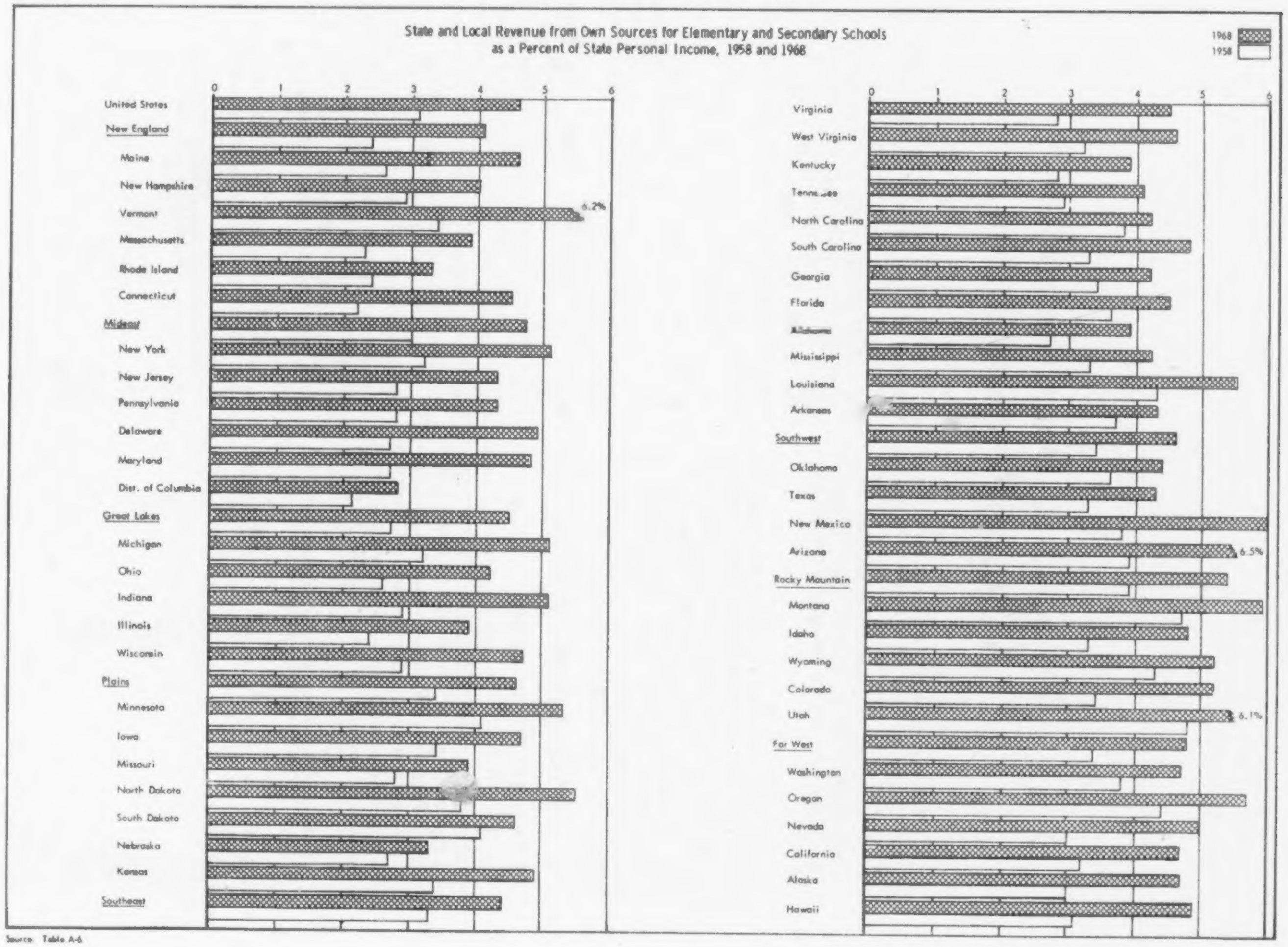
TABLE 5
NUMBER OF TEACHERS IN PUBLIC ELEMENTARY AND SECONDARY SCHOOLS
SELECTED YEARS 1939-40 to 1968
(in thousands)

Year	Kindergarten thru grade 8	Grades 9-12	Total
1939-40	575	300	875
1949-50	590	325	915
1959-60	834	521	1,355
1966-67	1,017	787	1,804
1967-68	1,030	820	1,850

Source: Adapted from U.S. Department of Health, Education and Welfare, Office of Education, *Digest of Educational Statistics, 196*.

FIGURE 5

THE REVENUE STATE AND LOCAL GOVERNMENTS RAISE FOR PUBLIC SCHOOLS GROWS FASTER THAN PERSONAL INCOME



State and Local Revenue from Own Sources for Elementary and Secondary Schools as a Percent of State Personal Income, 1958 and 1968

Source: Table A-6

TABLE 6
GENERAL EXPENDITURE OF STATE AND LOCAL GOVERNMENTS
AND LOCAL SCHOOL EXPENDITURES 1957-1967
[in millions]

Year	State and local general expenditures	Local school[1] expenditures	School as a percent of general expenditures	State education aid	State education aid as percent of general expenditures	State education aid as percent of local school expenditures
1957	$40,375	$11,657	28.9	$ 4,212	10.4	36.1
1958	44,851	13,032	29.1	4,598	10.3	35.3
1959	48,887	14,034	28.7	4,957	10.1	35.3
1960	51,876	15,166	29.2	5,461	10.5	36.0
1961	56,201	16,668	29.6	5,983	10.6	35.9
1962	60,206	17,738	29.5	6,474	10.8	36.5
1963	64,816	18,802	29.0	6,983	10.8	37.2
1964	69,302	20,399	29.4	7,664	11.1	37.6
1965	74,546	21,986	29.5	8,351	11.2	38.0
1966	82,843	25,081	30.3	10,177	12.3	40.6
1967	93,770	28,068	29.9	11,845	12.6	42.2

[1] Differs from data in Table 7 because Census data exclude debt service and certain other charges which are included in the Office of Education tabulation. See note (*) below.

Source: U.S. Bureau of Census, *Governmental Finances*.

that can be traced in part to a large influx of men into the teaching profession. In 1949-50, only one in every five teachers was male; by 1963-64, male teachers constituted slightly more than one-third of the teacher population.

Recent teacher strikes may manifest a natural desire by male teachers for wages commensurate with the costs of raising a family. Twenty years ago the average annual salary of the instructional staff in public schools just about matched average earnings of full-time employees in all industries. In the course of two decades, however, average annual earnings of public school instructional personnel have forged ahead of other employees. The 1966-67 amounts stood at an estimated $7,110 for instructional staff and $6,050 for all full-time employees.

Along with the rise in school enrollments, the cost of auxiliary personnel and other school services has grown. For example, in the 1956-66 decade the average cost of busing pupils to public schools went from $36.51 to $49.30 per pupil. Over this same period, the percentage of total enrollments transported increased from 35 to 40 percent.

Although prospective enrollment declines offer some promise for a leveling off in public school expenditures, the rise in the general price level, a continuing push for higher teacher salaries and the general desire for "quality" education will likely move public school spending to higher levels. New and expanded services, especially for the preschool and kindergarten set stand out as likely developments that will further propel education expenditures upward. To illustrate, the 1968 special session of the Florida legislature mandated 13 consecutive years of instruction, beginning with kindergarten for all children by 1973. Thus, the pressure exerted by education costs on State and local fiscal resources shows no sign of abating.

Current Financial Magnitudes*

Education is one of the nation's growth industries nourishing in turn an increasingly technological society. In relation to gross national product (GNP), the overall measure of goods and services produced, total education expenditures presently account for well over six percent. Two decades earlier, education laid claim to an amount equivalent to only three percent of GNP.

At the State and local level, schools have a claim in general expenditures akin to that of national defense on the Federal budget. Over the past ten years, characterized as they were by significant economic expansion, State and local school revenues from own sources have not only kept up with the advance in personal income—they actually exceeded it by nearly 50 percent for the nation as a whole (figure 5 and table A-6).** For no less than 21 States, even more dramatic increases than the national average were registered. Close to 30 cents of every dollar currently spent by State and local governments goes to local schools, with total school spending in 1967 just over $28 billion*** (table 6). Moreover, during the past 20 years, public school expenditures (including capital outlays) rose from slightly more than 2 percent of GNP in 1949 to about 4 percent in 1967. Spending for current school purposes—that is, excluding capital outlays—also outstripped the rise in GNP; on a per pupil basis, current expenditures rose at approximately the same rate during the last 20 years as GNP (see table 7).

State aid for local schools, including the Federal aid channeled through the State, burst over the $10 billion mark in 1966 and reached almost $12 billion in 1967. As a percent of State and local general expenditures for all purposes, State education aid now exceeds 12 per-

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*In accounting for school finances the researcher has access to two sets of books. One set is maintained by the school systems themselves and summarized in reports of the Office of Education. This set contains the amounts as seen in the eyes of public school officials. The other set is maintained by the collecting and disbursing officials of the units of government and summarized in reports of the Census of Governments. The dollar amounts in each set, for apparently similar items, are not always easily reconciled. School officials tend to work with figures based on school years, governors and legislators and the Bureau of the Census work with figures based on fiscal years. The reader must exercise caution when looking at the tables that follow to consider the perspective within which the data originate.

**Appendix tables appear at end of each chapter.

***Census data; on a somewhat different basis, the National Education Association estimates school spending for the 1968-69 school year at $34.7 billion.

TABLE 7
RELATIONSHIP BETWEEN GROSS NATIONAL PRODUCT AND PUBLIC SCHOOL SPENDING,
TOTAL, CURRENT, AND PER PUPIL
1949-1967

Year[1]	Gross national product (billions)	Expenditure for public elementary and secondary schools					
		Total[1]		Current expenditures		Expenditure (per pupil)	
		Amount (millions)	As a % of GNP	Amount (millions)	As a % of GNP	Total	Current expenditures
1949	$256.5	$ 5,838	2.3	$ 4,687	1.8	$259	$209
1951	328.4	7,344	2.2	5,722	1.7	313	244
1953	364.8	9,092	2.5	6,791	1.9	351	265
1955	398.0	10,955	2.8	8,251	2.1	388	294
1957	441.1	13,569	3.1	10,252	2.3	449	341
1959	483.7	15,613	3.2	12,329	2.5	472	375
1961	520.1	18,373	3.5	14,729	2.8	518	419
1963	590.5	21,325	3.6	17,218	2.9	559	460
1965	684.9	25,802	3.8	20,900	3.1	641	532
1966	747.6	27,948	3.7	22,623	3.0	684	569
1967	789.7	31,511	4.0	25,361	3.2	774	623
% Increase 1949-1967	207.9	439.8	–	441.1	–	198.8	198.1
Growth Rate (Annual)	6.4%	9.8%	–	9.8%	–		6.3%

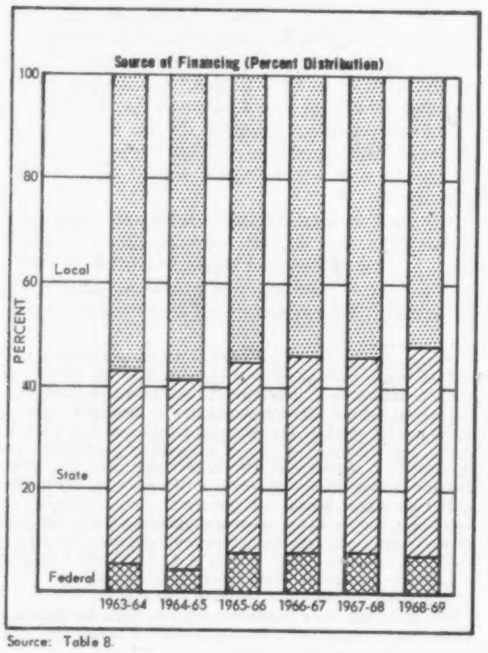
[1] GNP data for calendar year, school spending data for school term beginning in the fall of the calendar year. 1965, 1966, 1967 school data are preliminary or estimated.
Source: U.S. Office of Education, various reports; U.S. Dept. of Comm. Office of Business Economics, *Survey of Current Business.*

cent; as a percent of local school expenditures, it exceeds 40 percent and gives every sign of heading further upward.

Estimated school expenditures by source of funds also demonstrate clearly the growing significance of Federal and State aid. Federal support took a quantum jump—both in absolute amounts and in percentage terms—with the 1965-66 school year (figure 6). Reflecting in part this fiscal transfusion, State education aid has been growing in dollar amount and has even picked up percentagewise in recent years. Indeed, the local share of of public school spending has trended downward in recent years but still accounts for about 52 percent of all public school support while the amount provided from local sources continues to grow (see tables 8 and A-7).

FIGURE 6

FEDERAL AND STATE PUBLIC SCHOOL AID ON THE RISE



Source: Table 8.

TABLE 8
GOVERNMENTAL SOURCES OF FINANCING FOR PUBLIC ELEMENTARY AND SECONDARY SCHOOLS, 1963-64 TO 1968-69
[amounts in billions]

Year	Federal		State		Local		Total
	Amt.	Percent	Amt.	Percent	Amt.	Percent	Amt.
1963-64	$1.4	4.6	$8.1	37.3	$12.6	58.1	$22.1
1964-65	1.1	4.3	8.7	37.0	13.8	58.7	23.5
1965-66	2.1	8.0	9.7	38.9	14.5	55.1	26.3
1966-67	2.3	8.1	10.8	37.8	15.4	54.1	28.5
1967-68	2.4	8.1	11.3	37.8	16.2	54.1	29.9
1968-69	2.5	7.3	13.7	40.7	17.5	52.0	33.7

Source: U.S. Department of Health, Education and Welfare, Office of Education, *Digest of Educational Statistics*, 1967, Table 21, and National Education Association, *Estimates of School Statistics 1968-69*, Research Report 1968-R16 (copyright 1968 by the National Education Association; all rights reserved).

School Systems—Giants and Midgets

School districts in most States are independent units of government—Maryland, North Carolina, Virginia, and Hawaii represent organizational exceptions. In these States, school systems are dependencies of general governments. In Hawaii, the general government is the State itself; in Maryland, the counties and Baltimore City; in Virginia and North Carolina, county and city governments. In all, about half the States have one or more school systems dependent upon units of general government but these dependent school systems number only 1,608, almost half of which are in the New England States.

Extreme fragmentation still characterizes school district organization in many States despite consolidations and reorganizations that have drastically reduced the number of separate school systems—from over 100,000 in 1942 to 23,390 in 1967. Nebraska, Illinois, South Dakota, Minnesota, Texas, and California are divided into more than 1,000 independent school districts. Michigan, New York, Missouri and Oklahoma each contain more than 800 independent districts while New Jersey, Pennsylvania, Ohio, Wisconsin, North Dakota, and Montana each contain more than 500 (table A-8).

School district organization in most States practically assures conflicting alliances and loyalties for the citizen. With so many systems, enrollment size varies greatly, with the bulk of pupils enrolled in the relatively few large systems in each State. Out of a total of 23,390 school systems, fewer than 900 (with average enrollment exceeding 6,000 pupils) account for 58 percent of the total pupils enrolled.

The more disconcerting aspect of school district organization from an intergovernmental viewpoint is that, with the exception of a few States, school district boundaries cut across boundaries of other local governments. Thus, as a unit of local government, the school district often possesses geographic autonomy as well as political and fiscal independence, setting off a competition with other governmental units for the same local tax dollars. Calling for greater realization of this competitive interdependence, a Colorado legislator lamented:

> . . . Right now the school teachers and educators of the State are launching a massive political effort to secure greater sources of financing the public schools, and most of them, there are exceptions, but most of them don't have the first idea that what they're doing has a direct and crucial relationship to the financing of local government and state government.[3]

For educational as well as economic reasons, there is persistent concern in most States with school district reorganization. Several States have dangled a financial carrot to induce smaller districts to consolidate. By and large these attempts have met with limited success. Despite financial inducements, the poor small district usually remains a residual unwanted under voluntary reorganization plans. One present viewpoint is that if consolidation is to proceed, it must be under State mandate. John W. Gardner's list of recommendations for achieving national goals in education specifically mentioned that "States should pass laws making such reorganization mandatory under the direction of the State Department of Education."[4]

Operating efficiency stands out as the major argument for continued State efforts on school district reorganization. Experts may disagree on the optimum size of a school system—though 2,000 is frequently mentioned as a minimum requirement. There is general agreement, however, that school districts with larger enrollments can utilize personnel more effectively, provide a sounder basis for school financing, and offer a fuller educational experience.

THE SCHOOLS AND THE PROPERTY TAX

The steady rise in local property taxes for schools has two intergovernmental ramifications. It means more intensive use of a fiscally inferior revenue instrument. It also portends difficult financial problems for other taxing units—particularly large cities—as they seek to obtain additional revenue from the property tax.

Property Tax Deficiencies

Criticism of the property tax as the source of local school support focuses on three deficiencies. First, it is alleged that the tax is a poor measure of either ability to pay or of benefits received. Wealth today is reckoned in terms of the dollars rather than the property individuals command. School support, it is argued, should therefore come in larger amounts from income and sales taxes which are better suited to State than to local government use.

The second criticism of the property tax concerns the inadequacy of its administration in many States. While important gains in the quality of property tax assessments have been made, it is also clear that much more action along the lines outlined in this Commission's 1963 report is urgently needed.[5] Nationwide, the average overall level of realty assessment has risen only from about 29 percent in 1961 to about 31 percent in 1966. In a majority of States, at least half of the local assessing areas covered in the latest Census still had a dispersion index for one-family house assessments of over 20 percent. The Census data also showed once more a marked divergence in most parts of the country in the assessment for various kinds of realty, usually including a much lower assessment-sales ratio for vacant lots than for improved urban property. Thus, there is still a long way to go to make the property tax—now yielding some $31 billion a year—a more equitable revenue instrument for governmental financing.

The third criticism leveled against the property tax is that it results in tax overburdens on some individuals and property owners, particularly the aged and low income groups. Wisconsin and Minnesota have pioneered in the use of an income tax credit-tax rebate, "circuit breaker" technique to protect individuals and families from extreme property tax burdens.[6]

On the other hand, virtues in the property tax are claimed by many. First, it is a highly productive tax and has been a mainstay of local government revenue for generations. Second, it is a highly visible tax and provides a direct linkage for many citizens between services provided by local government on the one hand and the cost of services on the other.

"Municipal Overburden" and other Revenue Constraints

Due to the greater need for police, fire, and other "custodial-type" requirements, municipal pressure on the local property tax is noticeably greater in the larger central cities than in suburban areas. This "municipal overburden" tends to reduce the amount of funds available to central city school districts from taxes on real and personal property. For example, a study of school financing in Pennsylvania revealed that only 30 percent of local funds raised from taxation in Philadelphia and Pittsburgh went to the school districts of these two large cities, whereas 70 percent of the local funds in suburban first class townships went to the public schools of these areas.[7] In New York's six large city school districts, 78 percent of the property tax is used for services other than education compared to 48 percent for all local governments excluding "Bix Six" cities. This is not merely a reflection of New York City's special problems. For the other five large cities, which are not atypical, the figure is 66 percent.[8] Thus, even though taxable values tend to be higher in the large cities, the effective property value per pupil available for school taxes may be smaller than in other jurisdictions.

Discriminatory State constraints. Access to local revenue from property and other taxes is usually more restricted in large city districts than in small ones; in many States, a completely separate body of laws applies solely to the large school districts–frequently the one or two largest in the State. In nine of the 14 largest city school districts in Pennsylvania, for example, restrictions on tax levies are more severe than those applicable to the smaller districts. In some cities, local school boards have virtually no authority to control school revenue, and any increase in property taxes requires approval by the State legislature. In contrast, local school boards in smaller districts within the same States have much greater latitude in raising revenue without action by State legislatures. Further, as States have tended to gloss over the nonschool demands on the local property tax in their school foundation distribution, it is not unusual for large districts to end up with a much smaller share of total revenues from nonlocal sources than is the case for smaller districts. Witness, for example, the plight of St. Louis under Missouri's school aid plan:

> The current Missouri Foundation Program developed in an era when the cities were considered affluent and privileged–when they were expected to pour out resources to help other parts of Missouri. That era is tragically gone. Our cities are now in crying need of help and the cries can be ignored only at peril to the well-being of the entire State.

The average State support per pupil in Missouri (excluding St. Louis) is now estimated at $213.86, whereas the State support per St. Louis pupil is $161.94–or $51.92 below that level. The national average of State support has been 40 cents of the school budget dollar, and it will rise next year. The Missouri average is 33 cents; the Missouri support to St. Louis is 27 cents.[9]

Tax rate limitations. Rate restrictions on school use of the property tax constitute a direct limitation confronting the educators. Generally, current school expenses must be met within a prescribed rate limit. Many States provide that such limits may be exceeded subject to varying majorities of voter approval. Debt issuances to finance capital outlay typically must be within limits established by the law and receive voter approval.[10]

Fractional assessment contraints. In the competitive struggle to capture the property tax dollar school officials have had to overcome indirect as well as direct limitations to the property tax base.[11] One such indirect limitation relates to the effect of the assessment base on school revenues. Obviously, assessments at a fraction of full value necessitate higher rates to produce a given yield. While most State constitutions provide for assessments at full value, this requirement is honored more in the breach than in the observance. Even in those States where an attempt has been made to legislate current assessment practice into basic state law, assessments typically fall below the legal standard simply due to the passage of time. Assessors cannot revalue all property every year. Thus, even though an assessor may appraise property at 25 percent of actual value, rising values mean that within a short time the assessed value will constitute less than 25 percent of full value.

The assessment level is uniquely important in the many States that impose tax rate limits for schools or other purposes. The most obvious illustrations of this are suits instigated by persons seeking greater local spending on schools. In a Kentucky suit of this type, the court mandated conformance to the statutory assessment standard. The rulings in effect, tripled the property tax revenue for schools because property on the average was assessed at about one-third of its value.

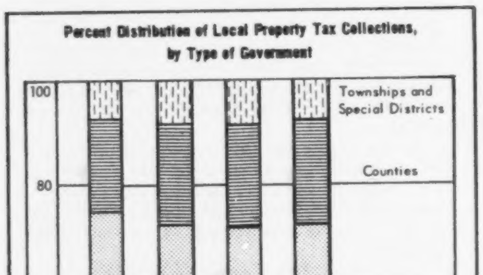
Education: Now the Dominant Property Tax Claimant

Despite the direct and indirect constraints on the use of the property tax in most States, school officials have succeeded in enlarging their claim on this revenue source. While total local property tax revenue was rising from $4.3 billion in 1942 to an estimated $31.5 billion in 1969, the portion devoted to schools rose from about one-third to slightly more than one-half (figure 7). Schools have thus displaced both cities and counties as the major governmental recipient of property tax revenue.

A second and more detailed measure of the increasing percentage of gross property tax levies accounted for by schools is available for selected States. Data in table 9 for Iowa, North Carolina, New York, Ohio, Oregon, and West Virginia show that the property tax is increasingly becoming a tax to support education.

FIGURE 7

SCHOOL SYSTEMS ARE LAYING CLAIM TO AN EVER-INCREASING SHARE OF THE LOCAL PROPERTY TAX



Source: ACIR computations based on data from the Bureau of the Census.

TABLE 9—SCHOOL LEVIES AS A PERCENTAGE OF PROPERTY TAX LEVIES IN SELECTED STATES FOR SELECTED YEARS 1950-1966

Year	Iowa	N.C.	N.Y.	Ohio	Oregon	West Virginia
1950	50.7			54.5	60.4	58.5
1956	53.2			60.8	58.9	62.9
1960	56.6	39.3	44.6	64.4	63.0	66.1
1962				66.4	63.4	69.0
1964	58.2			67.9	63.9	68.6
1966		42.0	48.0		65.7	68.8

Source: *Research Finding for the Governor's Study of the Tax Structure of the State of Iowa*, Des Moines, Sept. 1966 (Research Memorandum III); State of North Carolina, *Statistics of Taxation*, Raleigh, 1960 and 1966. State Comptroller, *Special Report on Municipal Affairs*, Albany, March 27, 1967; *Ohio Tax Study Commission Report*, Columbus, June 1967, p. 105. Oregon State Tax Commission; Biennial Reports of the West Virginia State Tax Commissioner.

INTERGOVERNMENTAL ASPECTS OF PUBLIC EDUCATION: FEDERAL AND STATE PROGRAM RESPONSES

Education and Benefit Spillovers

The little red schoolhouse stands as a symbol of the close identification between local community and support for public education. Indeed, in no other area of public activity are these ties so great. Yet it has long been recognized that educating the country's youth is of more than local interest. Americans are—and always have been—a mobile people. As a result, the educational opportunities provided by one local community subsequently come to affect many different jurisdictions. This factor has become increasingly critical in a technological age.

Because of the growing mobility of the population and the steady rise in educational costs, upper governmental levels have come to play increasingly important roles in financing elementary and secondary education. State governments in particular have a long and well-established responsibility. More recently, the Federal Government—through the Elementary and Secondary Education Act of 1965—assumed part of the financial responsibility for provision of elementary and secondary education albeit on a compensatory basis. Thus, while local initiative and support remain paramount, the financing of public education has become—and will undoubtedly continue to be—intergovernmental in scope (table 10).

TABLE 10—SOURCES OF PUBLIC SCHOOL FINANCING, SELECTED YEARS, 1920-1969

Year	Total revenue receipts (in millions)	Percentage distribution		
		Federal	State	Local
1919-20	$ 970	0.3	16.5	83.2
1929-30	2,089	0.4	16.9	82.7
1939-40	2,261	1.8	30.3	68.0
1949-50	5,437	2.9	39.8	57.3
1959-60	14,747	4.4	39.1	56.5
1965-66	24,900	7.6	38.6	53.8
1966-67est.	27,256	7.9	39.1	53.0
1967-68est.	31,092	8.0	39.3	52.7
1968-69est.	33,092	7.3	40.7	52.0

Source: U.S. Department of Health, Education, and Welfare, Office of Education, *Statistics of State School Systems, 1963-64*; and National Education Association, *Estimates of School Statistics 1968-69*, Research Report 1968-R16 (copyright 1968 by the National Education Association; all rights reserved).

Underpinning this outside financial support is the fact that "benefit spillovers" are inherent in the provision of public education, the single most important function supported by State and local governments. As the term implies, benefit spillovers arise from the interdependence of contemporary society—that is, the quality of education provided in one community ultimately affects residents of other localities. While it is helpful to distinguish between private benefits, which relate to an individual, and public benefits, which accrue to society as a whole, it is necessary to recognize that both types become external—that is, spill over—when they are received by individuals outside the jurisdiction providing the service. Thus benefit spillovers accrue to others than the student, but relate only to those "others" who reside outside the locality providing the public service.

With specific regard to public education, there are three sources of external benefits. Perhaps most basic of all—and one that pervades the entire nation—is that a democratic political system relies on a well-educated public for its continued existence. Moreover, education leads to both greater knowledge and skills for an individual and via migration these become geographically diffused. Approximately 20 percent of our population changes residence each year and while many such moves are accomplished within a particular jurisdiction, an important part undoubtedly takes place across local and State lines. As a result of migration then, the effects of the educated individual are brought to bear on his new associates, co-workers and community in general. Thirdly, there is a close relationship between education and income earned. Such additional income tends to expand the tax base not only of the area of residence but to all governmental units that can establish a claim to this income. By means of their expenditure programs, these governments can then redistribute some of these additional earnings to various parts of the country.

To be sure, education is only one of many State and local functions that involve benefit spillovers. Yet there is general agreement that public education is the prime example of this phenomenon both because of magnitude and geographic scope.

Federal Aid to Elementary and Secondary Education, Title I

The passage of the Elementary and Secondary Education Act of 1965 [ESEA] heralded the opening of a new source of substantial financial support for public schools, particularly those serving urban and rural areas of extreme poverty. Grants to encourage the establishment of vocational education programs started in 1917. The school lunch program began in 1946. The National Defense Education Act was spawned by Sputnik in 1958. Over the years, these and other categorical grant programs gradually raised the Federal share of total public school spending to 4 percent. Passage of ESEA virtually doubled this Federal contribution in one year–1966–but it began to taper off somewhat thereafter.

Title I of the act was designed as the first large scale attack on the educational deprivation of poverty children. It provides financial assistance to local schools in areas having high concentrations of low income families. Projects are planned, administered, and executed by local school systems after State approval. The Federal Government lays down broad guidelines for proper administration of the funds to insure that the money is spent as Congress intended. The U. S. Office of Education is charged with preparing an annual evaluation of the effect of the act.

Federal aid for public schools has always been of the categorical type. The passage of ESEA continued Federal policy in this respect. Nonetheless, Title I represented landmark legislation because of its dollar magnitude and the number of school systems made eligible for Federal funds. The first year impact of this legislation is summarized in the following excerpts from the United States Office of Education's ***First Annual Report of Title I.***

> Approximately 92 percent of the Nation's local educational agencies met the criteria for eligibility established in Public Law 89-10. However, of these eligible agencies, approximately 30 percent did not participate in Title I. One hundred and four of them (whose allocations accounted for about 2 percent of the total entitlement) were not in compliance with Title VI of the Civil Rights Act of 1964. A majority of the other 7,341 eligible local districts not participating felt that their allocations were too small to make individual or cooperative projects with other school districts practical. In some cases, the States reported, it was necessary to reject applications from local agencies with small allocations because the proposed projects failed to meet Federal or State criteria for size, scope, and quality.
>
> In all, during the first year of operation, 8.3 million children were served by Title I and some $987.6 million was expended, including about $11 million for handicapped children under Public Law 89-313. Expenditures totaled 84 percent of the allocations.
>
> The average Title I expenditure per pupil was $119, but the expenditure ranged from about $25 to $227. For many States this represented a substantial increase over average current per-pupil expenditures, the national average being about $532 for 1965-66.
>
> Nearly 52 percent of the $987.6 million in Title I funds the first year was spent on instruction; about two-thirds of that amount was spent for language arts and remedial reading, which were identified as the top priority by the majority of local educational agencies.
>
> Some 21 percent of the total was spent on educational equipment, and about 10 percent was spent for construction. Food and health services accounted for 4.5 percent of the total expenditures.

In its second year of operation Title I served approximately 9.2 million school children in 16,400 school districts throughout the States. Spending emphasis shifted away from construction and the purchase of equipment toward instruction-related services including teachers and pupil services.[12]

Before the passage of ESEA, the Office of Education could identify only three States–California, New York, and Massachusetts–with any investment in compensatory education. By the end of 1967, however, 9 States had enacted programs. The 12 States had set aside almost $200 million to carry out essentially the same purpose.[13]

In its evaluation reports of Title I, the Office of Education noted that categorical aid cannot be viewed as a classroom remedy to all the problems of poverty, violence, and delinquency, high infant mortality rates, and other familiar characteristics of the weaknesses of our cities. The clear implication of Title I's impact after two years of operation is that community redevelopment, not simply better schools, is required over the long run.

Impetus for Federal aid for compensatory education came from evidence that showed the average suburban pupil in the 37 largest urban areas was backed by more financial support than the average pupil in the inner city. As this Commission noted in its Fiscal Balance study,

Table 11

TABLE 11–CITY SHARES AS A PERCENT OF STATE TOTALS FOR SELECTED FEDERAL CATEGORICAL AIDS, 1966-67

City	Public school enrollment 1966-67	Title I, ESEA, 5-17 (county) (est. FY 1967)	FY 1967 obligations for:				
			Voc. ed.	NDEA III	ESEA I	ESEA II	ESEA III
Los Angeles	14.59	20.60	14.36	.21	20.03	7.58	5.87
San Francisco	2.49	4.53	3.53	.84	4.38	1.87	3.17
San Diego	2.78	3.08	2.70	2.44	3.03	.82	2.56
Denver	19.38	29.10	12.74	7.81	26.02	17.02	28.66
Atlanta	10.53	6.92	5.88	12.10	5.74	22.84	7.95
Chicago	28.51	50.89	24.24	29.80	53.87	32.99	17.50
New Orleans	13.02	11.65	9.46	12.53	15.01	20.78	23.38
Baltimore	24.31	50.81	7.90	18.82	49.67	10.51	2.66
Boston	8.08	26.10	3.93	6.17	24.83	6.42	0
Detroit	14.79	33.26	26.24	28.47	34.97	14.56	.58
Minneapolis	8.62	12.61	8.63	15.19	11.20	9.33	8.05
St. Louis	13.94	18.90	8.35	3.60	19.44	18.43	21.08
New York	33.31	63.80	10.74	34.30	61.39	29.58	28.18
Buffalo	2.26	4.46	3.16	1.82	4.34	2.58	5.02
Cleveland	8.21	14.31	11.52	4.72	14.70	6.47	6.07
Cincinnati	3.84	8.48	1.46	3.87	8.80	3.09	13.00
Philadelphia	12.85	25.37	10.88	17.73	24.88	8.51	17.28
Pittsburgh	7.58	6.93	22.83	7.04	6.62	1.84	11.31
Memphis	14.74	9.33	0	0	9.25	13.94	1.18
Houston	10.93	5.23	4.04	5.20	6.13	8.24	12.20
Dallas	5.93	3.76	3.31	4.08	3.69	5.42	.83
San Antonio	5.27	4.39	3.77	1.80	4.36	3.29	3.06
Seattle	18.46	15.67	10.90	12.55	14.78	12.09	44.38
Milwaukee	13.36	18.37	10.09	11.92	17.84	10.28	15.70

Source: U.S. Department of Health, Education and Welfare, Office of Education, unpublished tabulation.

growing disparity characterizes public school spending as between central cities and their environs. A Carnegie Corporation study in 1966 pointed out that the nation is spending much more money to educate the children of the well-off than the children of the poor.

Federal aid for compensatory education–$1 billion dollars annually–is not large enough to match the extent of the problem according to the evaluation report of the Office of Education. Large numbers of children and schools in need are still left out. School administrators at both the local and State level face hard choices on where to spend the relatively limited amount of Federal funds for compensatory education and indeed for various other categorical Federal educational aids (table 11).

Federal Aid to Impacted Areas–Public Law 874

With the enactment of Public Law 874 by the 81st Congress the Federal Government made special aid available to local school systems designed in part to compensate for the presence of large scale tax exempt Federal activities. These funds are distributed on the basis of eligibility criteria set by the Federal Government and relate to measures of the Federal presence in a community rather than to the wealth of the school district.

A study prepared for the U.S. Office of Education in May 1965 reported that 14 States* offset part of the Federal funds in calculating State aid. The offsets occur only where State equalization aid is involved and where such aid is determined on the basis of relative assessed value per pupil.

States justify offsetting on the grounds that their equalization aid is designed to compensate for a lack of local revenue sources. State aid calculations take into account only those local revenues raised through local taxation, mostly property taxes. Because of the favored Federal tax position, there is an admitted shortage in the local tax base because of Federally connected pupils. However, some or all of the deficiency in the tax base may be covered by receipts from the Federal Government under P.L. 874. To the extent that this is the case, the Federal payment represents local revenues comparable in all respects to revenues raised by locally imposed taxes. Accordingly, where the State has a foundation program with equalization aid based on assessed values, it is justifiable for the State to take P.L. 874 funds into account, i.e. capitalize the Federal payment to represent assessed value, in determining the amount of equalization aid to give.

The Office of Education study examined 17 districts in California and Virginia that received P.L. 874 funds and found that typically about 30-40% of the actual Federal payments could be justifiably offset.[14] These represent the double payment to the district, where both the State and Federal Government are compensating a school district for the same lack of tax base.

The Development of State Foundation Programs–A Brief Survey

State aid to public schools began with a two-fold purpose: (a) assistance in getting schools started in new settlements, and (b) improving the scope and content of public education. For these purposes flat grants based on enrollment or school census figures served reasonably well. The burden of supporting public schools was bearable even in the poorer communities because local schools did not initially have to compete for funds with a wide array of other local services and school costs were relatively low.

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*Alaska, California, Maine, Nevada, New York, Oregon, Rhode Island, South Dakota, Utah, Vermont, Virginia, Washington, Wisconsin and Wyoming.

About the turn of the century public schools in most population centers acquired their present structure—12 grades and a nine-month school term—and came to represent a greater cost to local taxpayers. As States legislated local programs of this scope, the issue of inequality in local wealth surfaced. Rural communities in particular found it increasingly difficult to impose tax rates stiff enough to meet the State mandated programs. Cities with their concentrations of valuable properties could and did provide high level educational programs with moderate tax effort.

Early on, educational finance theorists confronted the task of devising a plan of joint State-local financing that would minimize differences in the quality of local schools and allocate equitably the burden of taxes required to finance them. In 1924, George D. Strayer and Robert M. Haig provided a plan that gave primary emphasis to equalization as the objective of State aid. Under this approach, State and local tax dollars were to team up and thus provide a foundation program below which no district in the State could fall. The proportion of State aid to local support would depend on the size of the satisfactory minimum offer and the degree of inequality among the school districts. The wider the local tax resource disparities, the greater the amount of State aid required to equalize at a particular foundation level.

The Strayer-Haig approach became the model for numerous State adaptations. Compromises with the strict application of the equalization objective were made in most States to accommodate: (a) the long-standing tradition of flat grants; (b) the reluctance of State officials to increase State taxes to fully finance an equalization plan; and (c) the desire of some localities to finance truly superior public schools. In most States the foundation plan ended up providing the poorest district with a basic educational program at a level well below that which many school districts willingly supported. Wealthy districts were left ample local tax leeway to exceed the minimum foundation plan level without unduly straining local resources. Retention of flat grants as part of most State school financing plans left the wealthiest communities free to forge ahead.

State policymakers confront a troublesome decision in setting the level of the minimum program. Educational dollars are of unequal value from district to district in a State whether it be South Dakota or Illinois. Average salaries in certain school systems attract qualified teachers. Higher than average salaries in others—the central cities or remote rural areas—may not be enough to attract qualified teachers. Thus, a uniform minimum program for the State as a whole runs head on into the problem of the unequal penetration of the school dollar.

Because the foundation approach is based on costs at the time it is established, poor districts in particular suffer when costs rise and fail to be reflected in the State foundation distribution. To keep pace with rising prices, the poor districts must impose higher taxes without the benefit of equalizing State aid. Recent studies indicate that this has been the case both in Nevada[15] and Texas[16] and, it seems safe to say, elsewhere as well.

Perfecting amendments to the basic Strayer-Haig equalization thesis were developed as States enacted their foundation plans. For example, Paul Mort and other practitioners showed that educational costs differ for elementary and secondary pupils and that the unit of need in the foundation plan should be appropriately weighted to reflect these differences. Educational finance theorists admonished the States to recognize that a pupil is not just a pupil. Most States heeded the advice either by weighting pupils for purposes of their foundation distributions or by adding special State aid categories, or both. The physically and mentally handicapped children became the subject of special solicitude. Federal categorical aid for vocational education called State attention to the needs of students pursuing this course of study.

Current Patterns of State Aid

State school aid distributions are most simply categorized by method and purpose. By method, the distribution flows either in the form of *flat grants* (per pupil), or some measure of need or *equalizing* grants (per pupil or classroom) determined for individual districts on the basis of the relative availability of local resources. By purpose, more than 80 percent of State aid is provided without specific expenditure strings; hence, it is in the nature of *functional support*. The remaining 20 percent is restricted—to transportation, textbooks, and the like—and is *categorical aid*.

The pattern of State aid both as to method and purposes has been changing over time (see table 12). The

TABLE 12
ESTIMATED AMOUNT AND PERCENT OF STATE GRANTS DISTRIBUTED FOR PUBLIC SCHOOL PURPOSES, BY PURPOSE AND METHOD OF DISTRIBUTION
1953-54, 1957-58, 1962-63, 1966-67

Purpose and method of distribution	1953-54	1957-58	1962-63[1]	1966-67
		Amount in Millions		
All purposes	2,980	4,518	6,539	9,645
Flat	1,572	1,892	2,506	2,970
Equalizing	1,408	2,626	4,033	6,675
General purpose	2,407	3,712	5,806	8,174
Flat	1,185	1,386	2,027	1,928
Equalizing	1,222	2,326	3,779	6,246
Special purpose	573	815	733	1,471
Flat	388	516	479	1,042
Equalizing	185	290	254	429
		Percent Distribution		
All purposes	100.0	100.0	100.0	100.0
Flat	52.8	41.9	38.3	30.8
Equalizing	47.2	58.1	61.7	69.2
General purpose	80.8	82.2	88.8	84.7
Flat	39.8	30.7	31.0	20.0
Equalizing	41.0	51.5	57.8	64.7
Special purpose	19.2	18.0	11.2	15.3
Flat	13.0	11.4	7.3	10.8
Equalizing	6.2	6.6	3.9	4.4

[1] Not including Tennessee where about $120 million of State grants were predominantly for general purposes and distributed on an equalizing basis.

Source: U.S. Department of Health, Education and Welfare, Office of Education, *State Pro[illegible]ams of Public School Support.*

more significant trends are:

- Major increments in State aid have tended to be of the equalizing, no strings character.
- The trend toward equalizing grants has been running strongly and now about 70 percent of State school aid is distributed on this basis.

The differences from State to State in the method of distributing State aid—flat versus equalizing—reflect major differences in the State-local sharing of financial responsibilities. Delaware, New Mexico, and North Carolina provide flat grants to cover per pupil current expenditures defined by the State regardless of where the pupil resides. Localities have the authority and do supplement the State minimum support level by imposing a local property tax rate for schools. No State aid dollars are devoted to equalizing the burden of the locally obtained supplements. Nonetheless, only thirteen States used the flat grant method to distribute at least 50 percent or more of State aid in 1966-67, including the five that used this method, exclusively or almost exclusively (figure 8 and table A-10).

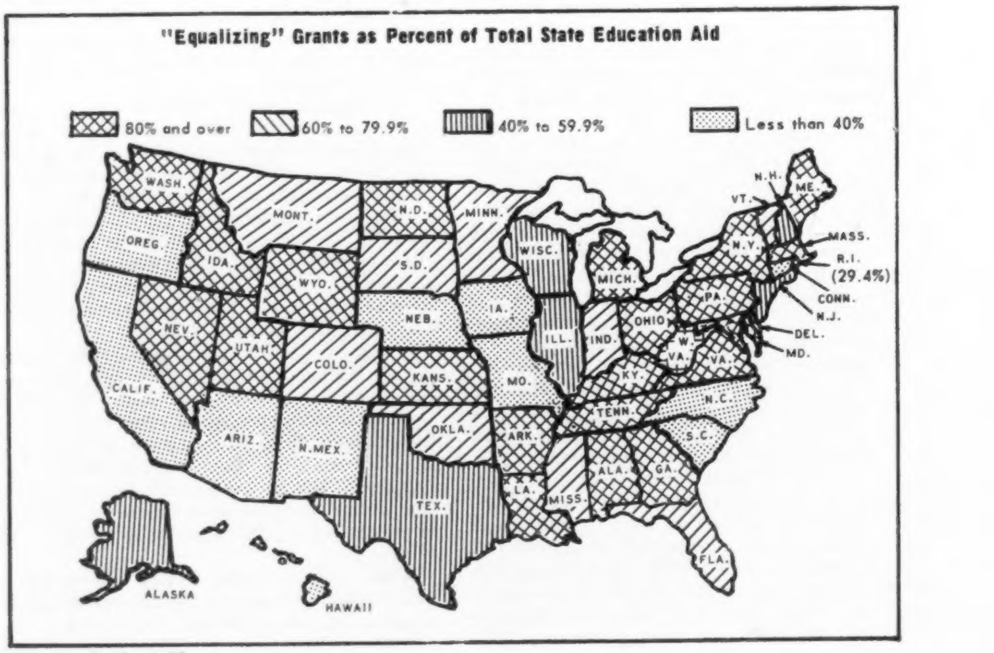
The majority of States clearly favor the equalizing grant method to distribute the bulk of school aid. Every State aid dollar in Rhode Island equalizes. More than $90 of every $100 of State aid equalizes in Georgia, Idaho, Kentucky, Maine, Michigan, Nevada, New York, Ohio, Tennessee, and Utah.

While some States have distributed school aid on an equalizing basis for a long time, it is noteworthy that a substantial number began the practice within the past fifteen years. Quantum jumps in equalizing grants as a percent of total State grants were indicated between 1953-54 and 1957-58 for seven States, between 1957-58 and 1962-63 for four States, and between 1962-63 and 1966-67 for eight States. In all, seventeen States have made the change from flat grants to major emphasis on equalizing grants in the period 1953-54 to 1966-67 (table A-11). Iowa and Nebraska have since climbed on the bandwagon.

On a State by State basis, the classification of State grants as between general and special purposes reveals that only Indiana and South Carolina spell out how a major portion of State school aid must be spent. Virtually 90 percent of Indiana's school aid is budgeted by the State for such specified purposes as instructional salaries, administrative, supervisory, guidance and auxiliary services, transportation, building fund, and debt service. In South Carolina, the State specifies the budget categories on all of its aid to local schools. Wyoming, Idaho, New York, and Ohio, in contrast, delegate to local

FIGURE 8

MOST STATE AID IS "EQUALIZING"


"Equalizing" Grants as Percent of Total State Education Aid
80% and over
60% to 79.9%
40% to 59.9%
Less than 40%
WASH.
OREG.
IDA.
MONT.
WYO.
N.D.
S.D.
NEB.
MINN.
WISC.
IA.
MICH.
ILL.
IND.
OHIO
N.Y.
PA.
VT.
N.H.
ME.
MASS.
R.I.
(29.4%)
CONN.
N.J.
DEL.
MD.
W.VA.
VA.
KY.
TENN.
N.C.
S.C.
GA.
ALA.
MISS.
LA.
ARK.
MO.
KANS.
OKLA.
TEX.
COLO.
N.MEX.
ARIZ.
UTAH
NEV.
CALIF.
ALASKA
HAWAII
FLA.

Source: Table A-10.

school boards the budget decisions for more than 99 percent of their State aid.

Techniques of State Aid

Educators generally agree that "to be fair," the allocation of State aid must take account of variations in needs, resources, and effort of local districts. While the basic measure of need continues to be the pupil, or teacher, or instruction unit, States also use "weighted needs" for such pupil characteristics as physical handicap or economic deprivation or, for the teacher, earned degrees or experience. Resources are the taxable wealth in a district whether measured by equalized property value or some proxy compiled for economic indices. Effort is the linkage between resources and needs; it indicates the actual taxing of resources to meet needs. Required effort is the mandated uniform rate times the equalized resource base for foundation program purposes. Exerted effort is the local school rate times the equalized resources and usually reflects the community's interest in meeting its educational aspirations, as well as the required local effort.

Five distinguishable techniques for distributing aid to local schools give varying weight to needs, resources, and effort.

Flat grants. A State flat grant to the local school district partially recognizes need. As additional pupils raise the financial needs of the district, the State responds with a fixed sum based on the teacher salary schedule and pupil unit measures. Delaware, which operates on this system, refines its measure of need further by distinguishing pupils on the basis of elementary and secondary grades and mental and physical handicaps.

Delaware does not require a minimum local effort and therefore ignores any disparity in local resources and tax effort. Although this might be a flaw under certain conditions, it may not be in Delaware's case because of that State's heavy reliance on the personal income tax. Where the flat grant represents a high proportion of total cost–65.8 percent in Delaware in 1966–and where the districts are few in number–51 in Delaware–and not widely disparate in local resources, the flat grant plan may nonetheless result in fairly equalized dollar support for public schools.

Flat grants plus categorical aid. The North Carolina and Connecticut systems illustrate variations of this combination plan. North Carolina pays the total calculated amount for salaries, transportation, and associated school costs of a basic program. Expenditures in excess of the State program are permitted but are a local obligation. In addition, there is State aid for such categories as vocational education, driver training, school lunch, professional improvement, and educational T.V.

The evaluation of the North Carolina system parallels that for Delaware, except that categorical aids tend to reward the wealthy districts for effort they can more easily make. The latter point takes on increased significance in Connecticut for two reasons: the State finances a smaller share of total school spending (31 percent) and therefore equalization becomes more essential; and, the number of categories–20 in all–begins to outrun the administrative capacity of local officials.

State grants requiring matching local funds. This technique stimulates local effort usually to meet a specific need identified as a categorical aid program such as school building construction. A State formula offers matching funds in a fixed ratio–e.g., Delaware 60% State–40% local, Florida 50% State–50% local. There is an incentive to spend local funds, but wealthy districts can respond more easily than poor ones. If there are appreciable differences in resources or efforts among districts, the wealthy soon outstrip the poor districts in construction and replacement of school facilities. Stimulation grants, however, do serve well as a means of getting new activities started.

State equalization grants. The theory enjoying the widest popularity is that State aid to local districts should bear an inverse relationship to the resources of the local district. For example, the ratio of State to local funds might be set at $1 for every $9 for the wealthiest district while for the poorest district it might be $9 of State funds for each $1 of local funds.

This is the underlying rationale for the so-called "foundation-type" State aid that dominates the public school financing picture. Most States place a ceiling on State support, that is, specify an amount beyond which the State no longer matches local funds. The ceiling inhibits the operation of strict equalization unless it is realistically close to the cost of meeting educational needs in all districts.

Rhode Island and Wisconsin come closest to equalization without limit. No ceiling is placed on the amount of State support available on a matching basis. State funds compensate for local resource disparities under a so-called equalized percentage matching grant.

The number of variations on the foundation program theme defies summary description and an evaluation of their impact. The U.S. Office of Education is sponsoring a three-year project to study, among other things, foundation program differences and to assess their effect on educational financing.

Two basic fiscal features of the foundation program are the required local rate and the measure of relative tax paying capacity. In most States the measure of capacity is equalized property value. However in a few States, mostly in the South, a proxy for property value is constructed from various local measures of income and wealth. This method is sometimes considered easier than assembling the necessary assessment-sales ratio data or making the requisite appraisal to equalize property value.

Utah treats the required local contribution in a unique manner. Under the provisions of its foundation program, all school districts are required to levy a property tax of 16 mills on the State equalized fair value of taxable property in the district. This levy is mandatory and local receipts produced by it in excess of $7,250 per distribution unit (27 pupils) plus the amount allowed for pupil transportation expenses are collected as a State tax and used for foundation program support in other districts rather than being retained in the district of origin. No other State comes as close as this in the imposition of a uniform State tax rate for school support. Excess local levies in other States are retained locally to supplement the foundation program.

Michigan, too, treats the tax rate and capacity factors uniquely. Local districts with overall local levies on State equalized values of 125 percent or more above the levies in other districts have their State equalized value for foundation program purposes reduced proportionately.

Flexibility of the foundation program. One reason why educators and legislators have held the foundation program in high favor is the flexibility it permits in pursuing both financial and educational objectives.

Because tax rates and tax capacity are so basic to the foundation concept there is a tendency for the generalist to overlook other elements in the formula that allow legislators to pursue educational and financial objectives simultaneously. If the objective is to provide more State funds for the physically handicapped, such pupils can be given additional weight in the pupil count as is done in Montana. If the objective is to take account of the lower cost of kindergartens and the higher cost of secondary and vocational education, pupils can be weighted by grade as they are in Washington. If the objective is to recognize differences in costs between rural and urban schools, density and sparsity factors can be applied to pupil counts as they are in Idaho. If the objective is to stimulate local districts to exceed the foundation level, a second phase can be added as Utah does in guaranteeing an added amount per distribution unit if districts levy a supplemental rate.

The interrelatedness of the various elements in a foundation program on the issue of equalization has been described as follows:

> If complete equalization (of resources) is the sole objective, a decision on one element–either the foundation level or the uniform local tax rate–determines the other element. Such a decision also determines the other elements of the State school finance plan: (1) the State and local share of the foundation program; (2) the nonproperty and property tax revenue share of the foundation program; (3) the amount of State aid; (4) the State appropriation; (5) the redistribution of resources among the school districts of the State; and (6) the State tax rate required on a State tax base to raise the State share.
>
> Any of the eight elements listed above–the foundation level, the uniform tax rate, and the other six–could be the point at which the decision is made. In fact, each could be the independent decision point which determines the values for the other variables. State finance plans are usually a weighted compromise between the eight elements, and result in choosing as a goal less than complete fiscal equalization.
>
> All of these decisions are constrained by the number of pupils in the State, property valuation in the State, and the range in the distribution of pupils and property valuations among school districts. Further, all are affected by year-to-year changes in these variables–particularly by changes in the valuation per pupil in a district relative to the State average. For complete equalization, the degree of valuation in per pupil valuation among districts alone determines the relationship of the foundation level to the uniform tax rate.[17]

Court Challenges to State Aid Systems–The Implications

In a suit filed against the State of Michigan early in 1968, the Detroit School Board asserted that the system of financing public education in that State denied equal protection of the law to school children in its district. Similar suits were filed in Illinois, California, Texas, and Virginia alleging violation of the 14th Amendment of the U.S. Constitution and, in some instances, identical provisions in State constitutions.*

Legal antecedents of these suits are the school desegregation and reapportionment cases. The mere fact that the suits have been instituted may hasten legislative consideration of revisions in State aid formulas. While it is too early to speculate about the ultimate disposition of the cases, success by the plaintiffs could change intergovernmental financing arrangements significantly.** Larger expenditures in poor districts would appear a more likely result than cutbacks in spending in wealthy districts, given the keen public interest in education.

The rationale for the court tests is that children in poor urban and rural areas are provided vastly inferior education to that provided in more favored districts. The inequality in public education results from a system of financing that makes the accident of wealth or poverty the chief determinant of funds available for public education in any locality.

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*The pertinent 14th Amendment language is as follows: No State shall make or enforce any law which shall abridge the privileges or the immunities of citizens of the United States; nor shall any State deprive any person of life, liberty, or property, without due process of law; nor deny to any person without its jurisdiction the equal protection of the laws.

**In November 1968, the Federal District Court in Illinois ruled (*McInnis v. Governor of Illinois*) that public revenue allocation is a basic policy decision more appropriately handled by the legislature. The Court said the complaint as structured did not present a violation of the 14th Amendment, there being no Constitutional requirement that public school expenditures be made only on the basis of public educational needs. The plaintiffs appealed the decision to the Supreme Court, which affirmed the lower court's decision without opinion. It has been noted that the *McInnis* case dealt only with the issue of whether educational need is a "judicially manageable" standard and that a protracted series of legal and legislative actions, the outcome of which is now unclear, can still be expected as other standards are proposed. See David K. Cohen "The Economics of Inequality," Saturday Review, April 19, 1969, p. 65. On May 23, 1969, a 3-judge Federal District Court in Virginia denied the plaintiffs' suit in *Burrus vs. Wilkerson* on grounds similar to those in the *McInnis* case while noting "their beseeming earnest and justified appeal for help."

Data from a recent study of school finances and educational opportunity in Michigan illustrate the factual basis for this contention. School districts categorized at three per pupil expenditure levels were cross-classified according to representative measures of the level and quality of public schools.* The cross-classification proved to be a striking demonstration that less money buys a poorer education. Measure after measure of educational deprivation occurred with greater frequency in the district with lowest per pupil expenditures.

The Michigan study also showed that the single most important factor in determining how much will be spent on any given child is the equalized value per child in the school district in which he resides. "State aid may reduce disparities in expenditure levels, but it does not eliminate them" (table 13).

TABLE 13
OPERATING EXPENDITURES PER PUPIL IN MICHIGAN, BY WEALTH OF THE DISTRICT, AND BY SCHOOL LEVEL 1965-66

State equalized valuation per resident pupil	Operating expenditures	
	Elementary	Secondary
0 – 4,999[a]	$ 374.63[b]	$ 534.87[c]
5,000–9,999	362.20	436.95
10,000–14,999	361.43	448.16
15,000–19,999	436.66	543.54
20,000–29,999	451.90	562.49
30,000 and over	582.57	789.30

[a] Only twelve districts were used in the compilation of per pupil expenditures in this wealth category.

[b] This unexpectedly high per pupil expenditure is the result of the presence of the Inkster City School District in the category. The average per pupil expenditure from the General Fund in Inkster for 1965-66 was $475.63. This expenditure was made possible by state and federal aid, both of which were supported by an intense local effort as reflected in a very high tax rate on the low SEV/RES. In addition, Inkster accounted for 2/3 of the pupils in this category.

[c] Also includes Inkster. In addition it includes several districts with high per pupil direct grants from the federal government.

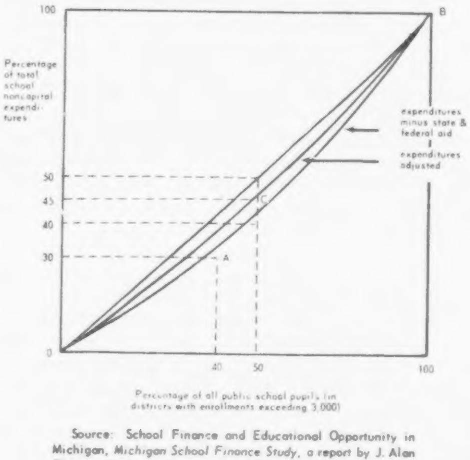
Source: School Finance and Educational Opportunity in Michigan, *Michigan School Finance Study*, a report by J. Alan Thomas, Michigan Department of Education (Lansing, Michigan) 1968, p. 163.

The shortfall of State aid in equalizing expenditures for public school pupils in districts with enrollments exceeding 3,000 can be seen on a graph (figure 9). If State aid were perfectly equalizing, the straight diagonal line would describe the relationship between the percent of total school noncapital expenditures and the percentage of all public school pupils. To the extent that State aid is not entirely equalizing, a gap opens between the diagonal line describing complete equalization and the curve describing expenditures adjusted for State aid.

Similar disparities in other States are pointed up in the report of the Office of Education, entitled *Profiles in School Support* (figure 10 and table A-12). The array of classrooms in several States shows that unit expenditures for those in the 98th percentile are more than three times the amount for those in the 2nd percentile. Eight States had levels at the 98th percentile at least 2.7 times those at the 2nd percentile in 1959-60. The educational landscape, even taking State aid into account, was not that of a high plain but rather one of peaks and valleys.

FIGURE 9

LORENZ CURVES ILLUSTRATING THE EFFECTS OF STATE AID ON SCHOOL EXPENDITURES IN MICHIGAN, 1962



Source: School Finance and Educational Opportunity in Michigan, *Michigan School Finance Study*, a report by J. Alan Thomas, Michigan Department of Education (Lansing, Michigan) 1968, p. 195.

The benefits of local initiative can be anticipated as the principle defense of current State practice. Local control of public schools has a long tradition. Educational theory has consistently upheld local control on the grounds of the substantial public benefit derived from innovations made possible by local autonomy. Those who would overturn the State aid system in its present form can be expected to argue that the State must take steps to lessen the disparities, and that greater equalization does not foreclose—and may, in fact, enhance—opportunities for local innovation.

It should be noted that even State assumption of full financial and operating responsibilities for public schools may not guarantee immunity from a suit alleging violation of the right of equal protection of the laws. In the District of Columbia with its single school system, a Federal court (*Hobson vs. Hansen*) upheld the plaintiff's contention that pupils in different parts of the city were not receiving equal education. This decision puts the onus on school officials to make obvious efforts to assure reasonable equality of educational opportunity.

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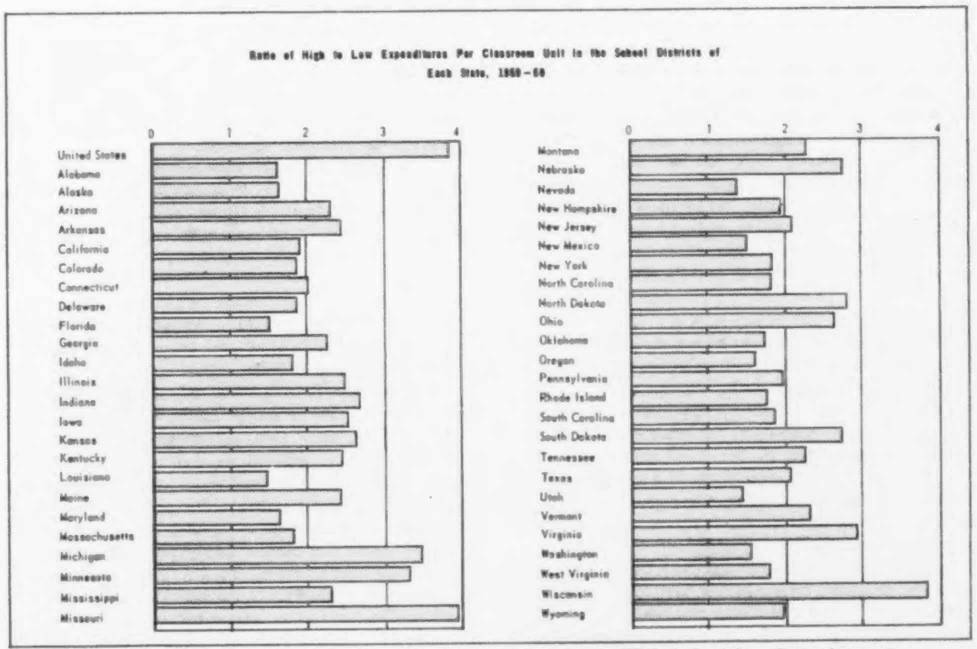
*Representative measures included, for example, special classes and programs, teacher preparation, full-time principals, counseling services, research and testing, closed circuit TV, science laboratories, language laboratories, and paperback book collections.

FIGURE 10

THE PEAKS AND VALLEYS OF EDUCATIONAL EXPENDITURE



Note: The District of Columbia and Hawaii are not included because each operated as a single school system in 1959-60 with only a single expenditure per classroom unit. They are, however, included in data for the United States.

Source: Table A-12.

LOCAL RESOURCE DISPARITIES AND STATE EQUALIZATION PROGRAMS

The Principle of Equalizing Educational Opportunities

The essence of the equalization approach is to compensate for wide differences among localities in their ability to support elementary and secondary facilities. This is done by providing greater amounts of State aid to the poorer local jurisdictions. As of the school year 1966-67, virtually all of the State governments provided some part of their State aid on the basis of local wealth or taxpaying ability.

It is important to emphasize that both currently and traditionally, the principle of equalization has been used in terms of local fiscal ability—it is designed primarily to compensate for differences in financial resources among localities.

There are, of course, alternative ways of implementing the equalization principle. Some States, such as New York, put virtually all of their State education aid, 99.1 percent, in the context of a formula that reflects relative ability of individual school districts. In certain States, an equalization program is carried out alongside other programs—each of which has different State-local financial provisions. One frequently used technique to implement the principle of equalization is for the State to require each locality to impose a uniform tax levy—equal to the rate imposed by the district of average ability. In localities of below average ability, the uniform levy will yield a shortfall—to be filled in by State aid sufficient to support the State minimum education program. In districts of above-average ability, a surplus results which, with the exception of Utah (where it is turned over to the State for redistribution), is retained for local education purposes.

The level at which the minimum or foundation program is set also can be derived in alternative ways. At the heart of such programs, however, is a guarantee of providing a given quality of educational opportunities—as approximated by per pupil expenditures—with differences in student-teacher ratios, costs of elementary and secondary education facilities and rural-urban price differentials sometimes accounted for. As a result of such equalization formulas, a minimum statewide program for elementary and secondary education is established regardless of the financial ability of any particular locality to finance such a program.

So long as the distribution of local fiscal resources was reasonably uniform, reliance on local initiative for the provision of educational facilities was a workable solution. With the industralization and urbanization of the nation, however, local wealth came to be increasingly concentrated in certain sectors of the individual States. Not infrequently, the location of a railroad or the construction of a major highway were critical elements leading to widely different levels of local fiscal resources. In such situations, two localities in the same general vicinity would have wide differences in their ability to support elementary and secondary education. Hence, the system of relying on local initiative tended to break down since the affluent jurisdictions could provide an educational program with a rather light tax effort while poor localities would be required to undertake a disproportionately heavy tax to finance a comparable educational experience. Rather than have the educational offering determined solely by the accidents of local financial ability and initiative, State governments came to adopt equalization provisions for the distribution of State educational aid.

Equalization of educational opportunities, of course, can have different meanings. At one extreme, for example, it can mean complete uniformity in per pupil expenditures. In practice, however, equalization features have been used to help establish the minimum education program throughout a State; that is, to provide a floor on education programs to be made available to all students regardless of the fiscal ability of their local jurisdiction. Indeed, localities are left completely free to supplement this program to the extent they desire from their own fiscal resources.

Variations in Local Fiscal Ability

Since public education is typically financed by a multiplicity of local jurisdictions within an individual State, it is inevitable that these local units will differ in their financial ability and, as a consequence, their educational offering. Measurement of local fiscal ability has been in terms of two concepts. The first approach includes only the resources which localities have the legal authority to tap while the second relates to an income measure, from which all taxes are ultimately paid.

Since local income data are not generally available, a variant of the first approach to measuring local fiscal ability was followed here. In seven of the ten States selected for analysis, property values are the factor used to distribute State aid. In two additional States—Maryland and Colorado—property values combined with an income measure constitute local fiscal ability. Where local fiscal capacity is measured in terms of property value, assessment ratios constitute an integral part of the ultimate index. Where local assessors determine the property valuations, inequalities in assessment practices may negate the purpose of equalization; indeed in such cases, State aid is an inducement to low valuations. More preferable methods of ascertaining fiscal capacity under the property valuation approach are to have the State either supervise local assessments or for the State to equalize local property valuations.

A somewhat different approach to measuring fiscal ability is followed in Florida where State aid is distributed on the basis of an index of local taxpaying ability. This index is comprised of several specific indicators, all of which are designed to reflect local fiscal capacity. The specific series used in Florida are: sales tax returns, number of gainfully employed workers (excluding government and farm workers), value of farm products, value of railroad and telegraph property and automobile tag registrations.

To derive the Florida index of taxpaying authority, each of the specific series for the local unit—that is, the county—is calculated as a percentage of the Statewide aggregate. The percentages are then weighted and combined to determine the final index. The Florida index, however, illustrates a general difficulty with such measures. The weighting factors, determined to reflect the composition of the State economy, will change as the economy of the State itself changes. Thus, it is necessary to keep such measures as current as possible if local fiscal ability is to be adequately reflected. Yet in Florida, the weights currently assigned to the specific economic indicators were those determined in 1953. As a result, the changes in the Florida economy during the past fifteen years, as they affect local ability to support elementary and secondary education, go unnoticed—when the legislative intent is for the distribution of State aid to compensate for current differences in local fiscal ability.

For each of the ten States—selected to represent the four major geographic regions of the country—variations in local ability to support elementary and secondary education are quite pronounced. Among the cities and towns of Massachusetts, the wealthiest community had no less than 66 times the financial resources for each pupil than did the poorest locality (table 14); in Kentucky, the wealthiest school district possessed as much as nineteen times the local ability available to the poorest; among the school districts of Utah, this figure is eighteen. Even in Maryland where the comparable ratio of wealthiest to poorest county is three—the smallest such ratio for the selected States—the fact remains that if left to their own initiative and resources, the poorest county would have to undertake a tax effort three times that of the wealthiest to support a comparable program.

To be sure, these ratios rely completely on the "extreme values"—the high and low—and may seem to exaggerate the within-State inequality of wealth. Nonethe-

Table 14

TABLE 14—VARIATIONS IN LOCAL ABILITY, PER PUPIL, TO SUPPORT PUBLIC EDUCATION

State	Governmental level analyzed	Year	Low	High	Q^1	Q^2	Q^3	Semi-interquartile range	Ratio of high to low	Valuation measure
Massachusetts	City, Town	1965-66	$ 5,000	$335,938	15,210	$18,182	$24,793	.204	66	Equalized value
Kentucky	School District	1964-65	4,868	94,129	(n.a.)	(n.a.)	(n.a.)	(n.a.)	19	Equalized value
Colorado	County	1963-64	4,330	48,672	7,782	10,910	16,870	.388	11	Assessed value
New York	County	1964-65	11,700	69,238	15,341	18,143	24,882	.257	6	Full value
Indiana	County	1966-67	3,949	15,801	7,161	8,385	9,888	.158	4	Adjusted assessed value
Florida	County	1964-65	.3460	1.2485	.5304	.7287	.9180	.266	4	Index of taxpaying ability[1]
Oregon	County	1962-63	17,583	73,104	22,431	25,425	31,561	.220	4	True cash value
Maryland	County	1964-66	7,742	20,084	10,003	13,999	16,614	.236	3	Total assessed valuation of property at full rate
Utah	School District	1965-66	2,620	48,605	4,124	5,158	8,349	.410	18	Assessed value
N. Dakota	County	1966-67	3,104	19,957	4,806	5,501	5,982	.103	6	Equalized taxable valuation

[1] The index of taxpaying ability per pupil times 10,000. See p. 46.
Source: Various Annual and Special Reports of State Education Departments.
n.a. Data not available.

less, such variations are also revealed when a more refined measure, the semi-interquartile range, is used. This measure, the ratio of one-half the difference between the highest and lowest "25 percent values," expressed as a percentage of the median, avoids the extremes that are included in the full range of local ability. Again, variations among localities to support elementary and secondary education facilities are apparent.

The Equalization Tendency of State Aid

To what extent are such differences in local ability reflected in the formulas governing the distribution of State-aid? As mentioned, nearly all States distribute some portion of their State assistance on the basis of local ability to support elementary and secondary education—with the greater amounts of State aid per pupil going to poorer districts.

There are, however, many points where slippage between the goal of equalization and the actual distribution of State aid may occur. In some States, for example, equalization relates to a relatively small portion of total State funds provided. Thus, while this portion may equalize—in the sense that a given amount of State aid is distributed so as to offset variations in local wealth—the amounts of such equalization aid may be relatively small and thus will have a lesser impact in terms of actual amounts received by localities. To put this point somewhat differently, while a portion of State aid may equalize, it may have only a slight impact on local service levels if the total funds for this purpose are small, while the totality of State education aid may, in fact, work against equalization.

Even where equalization governs the distribution of a large portion of State education assistance, such formulas may be based only in part on local ability, with additional measures also used. These additional factors may, in fact, turn out to work against equalization. The Massachusetts distribution formula reflects these competing objectives. Under this approach, each locality receives an amount equal to the school aid percentage (where local ability is reflected) times the "Reimbursable Expenditures"*—which, with some exceptions, are local expenditures from their own sources. Since it is the wealthy communities that tend to undertake the greater expenditure from their own resources, however, this part of the overall formula tends to offset the equalization effect. Thus, while one part of the formula favors the disadvantaged cities or towns, encompassing as it does the equalization feature, the second part reflects State aid based on the concept of reward for local initiative, which has the effect of favoring the wealthy communities.

A final instance where the equalization objective might be thwarted are "save-harmless clauses" which guarantee that no locality will receive less under the equalization distribution than they had obtained in some previous year under an alternative distribution formula. A similar type provision is to establish a minimum figure of State aid for each locality regardless of what the equalization formula would have yielded. Where such provisions are in effect, the equalization tendency is constrained and the impact of such State aid is therefore reduced.

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*"Reimbursable Expenditures" are defined as total education expenditures minus the following: transportation, school lunch, special aid for handicapped, capital outlays (after deducting receipts for tuition), receipts from the Federal Government, proceeds from invested funds, and gifts applicable to such expenditures.

To determine the degree to which State aid actually accomplishes the equalization objective, Spearman Rank-Order correlation coefficients were calculated between State aid per pupil and local property values or, in the case of Florida, the index of taxpaying ability per pupil. This was done for each of the ten selected States for a recent year. If the equalization objective was perfectly accomplished, then the correlation co-efficient would be -1.00. The results for the ten selected States, however, indicate that there is a wide diversity in the actual equalization that is accomplished (table 15). In States such as New York and Indiana, the equalization tendency is nearly perfect and in several others it is rather strong. Nonetheless, there are a few States–such as Massachusetts, North Dakota, Utah, and Colorado–where the degree of equalization is quite modest. Indeed, in Massachusetts, there is no tendency at all for State aid to reflect the disadvantaged position of the poorer cities and towns.

TABLE 15–EQUALIZATION TENDENCY OF STATE AID FOR EDUCATION, SELECTED STATES

State	Correlation coefficient	Governmental unit analyzed	Year
Colorado	-.213[1]	County	1963-64
Florida	-.633	County	1965-66
Indiana	-.948	County	1966-67
Kentucky	-.811[2]	School Dist.	1964-65
Maryland	-.744[1]	County	1964-65
Massachusetts	+.024	Cities & Towns	1965-66
New York	-.918	County	1964-65
North Dakota	-.344	County	1964-65
Oregon	-.775	County	1962-63
Utah	-.388	School Dist.	1965-66

[1] Actual tax base differs from property value per pupil (see text).

[2] Includes 10 wealthiest and 10 poorest school districts only

To summarize then, equalization of educational opportunities is a goal to which virtually all State governments devote part of their State education aid. Even where this is so, however, there are instances where equalization is not actually achieved in the actual distribution of the State funds. Moreover, the equalization tendency as measured here has been in the conventional use of that word–to compensate for the meager resources of poor localities from which to provide elementary and secondary facilities. No attempt has been made under most equalization formulas, to determine the differential needs–as well as resources–that various types of students impose on their respective localities.

The Equalization Dollar Gap

The most recent information for judging each State's success in raising support levels for low expenditure school districts is contained in *Profiles in School Support*, a publication of the Office of Education. On the basis of a sample of school systems in each of the 50 States and the District of Columbia, the distribution of school spending for current operations (exclusive of transportation) per standardized classroom was calculated for each State. From these data, the median and other statistical measures were derived. The median in this case indicates the level of support currently provided for half of the classrooms (and presumably half of the pupils) in the State.

By relating the difference in actual spending and the amount required to support presently below median classrooms at the median level (for 1940, 1950, and 1960) to the State aid provided, it is possible to estimate the equalization "dollar gap"–the amount and percentage increase in State aid needed to bring the classrooms to the median expenditure level (table A-13).

A State has one of two options in assuring support at the median level. It can (a) increase its State aid by the necessary amount, or (b) redirect its aid distribution from wealthy to poor districts. Increased State support of about $765 million would have been required in 1960. Because it is likely that the financial magnitudes have increased all along the education front but that percentage relationships, while changed for certain States, have not been drastically altered for the nation as a whole, the required increase in State support may now have reached $1.5 billion more than total State aid of about $12 billion in 1967. The redirection of State aid from wealthy to poor districts would both shear off some of the peaks in school support and fill in some of the valleys.

Major Deficiencies in State Equalization Programs

Equalization weakness. A persistent criticism leveled against State foundation programs is aimed at their weakness in equalizing school spending. Some contend that the American commitment to equality of educational opportunity remains unfulfilled so long as part of the local support for schools comes from unequalized property tax dollars. Thus, the issue involves local property tax leeway permitted under most State programs.

Wealthy districts can supplement foundation program levels while the poor districts have a hard time achieving the basic program. Locally raised property tax dollars, outside the foundation program, are unequalized. To the extent that wealthy districts can impose supplemental property taxes for schools, the principle that a child's education should not depend upon the accident of his geographical residence is subverted.

Blindness to differential costs. State school aid programs usually treat all districts of the same size alike, regardless of their population characteristics. This approach assumes that all children are equal. (States usually make special provisions for the physically or mentally handicapped.) The validity of this assumption is increasingly questioned.

In Texas, research of the Governor's Committee indicates that there is a direct relationship between educational achievements and school district population characteristics.[18] Drop out rates and test results are related to the median educational level, the average family income and the ethnic make-up of the community in which the district is located. A comparison of the two large districts in Bexar County offers an extreme illustration of the problem (table 16).

Table 16

TABLE 16—TALE OF TWO DISTRICTS

District Characteristics	Core City Districts	Suburban District
Enrollment	22,000	23,000
Family Income (Annual)	$ 3,300	$ 7,400
Population Composition		
Spanish Surname	76%	7%
Negro	5%	0%
Anglo	19%	93%
Extra Professional Personnel beyond MFP	−45	91%
Percent of Teachers on Emergency Permits	52%	5%
State Aid Per ADA	$ 217	$ 221
Full Property Value Per ADA	$5,875	$29,650
Performance Measures:		
Dropout Rate (Grades 7-12)	32%	8%
Average Senior Test Score	12.1%	19.9%

Source: Governor's Committee on Public School Education, *The Challenge and the Chance*, (Austin, 1968).

The Suburban District received more State aid because its teachers were better qualified (in terms of degrees and experience) and because the Core City District was unable to fill 45 of its Minimum Foundation Program positions. Yet, the Suburban District has about five times as much taxable wealth per student as the Core City District when measured by full property values.

Data have been developed in recent years to show that the cost of educating some students is substantially above average. The particular groups that have been identified in these studies are the racial and ethnic minorities. Because of a lack of stable home surroundings, low income, and other factors, students from these groups come to school with severe educational handicaps. To overcome these handicaps, schools must exert extra effort if these students are to achieve the skills required in an increasingly complex technological society.

POLICY ALTERNATIVES

Most of the current demands in the educational finance area stem from the demonstrated inability of public schools in some localities and neighborhoods to deliver on the promise of equal educational opportunity. While the failure is not traceable entirely to differences in school spending per pupil there is a strong suspicion that inequality of resources behind each pupil is part of the explanation. If spending and resources were better equalized, perhaps some of the "education gap" would disappear. Public interest, in assuring this outcome, is expressed in the foreward to this chapter. The public interest in providing comparable education comes through even more starkly in the remarks of Edward J. Steimel to the Governmental Research Association:

> ". . . let me ask *you* . . . who have most of the options available to anyone concerning the exact education you want for your children—if you would be willing to send your children to the worst school in your community?
>
> "Children do go to these schools. Are they less important than your children? Their parents have no options."

School aid distributions in virtually every State reflect a twofold need: one, equalization, the other, legislative. The need for equalization rests on grounds of fair treatment for school districts with varying resource capabilities. Legislative need is equally basic. Virtually every State has found it necessary to distribute some funds to every school district regardless of its wealth. But, in every State there is a lingering concern about the terribly unequal resources that exist among school districts and the fact that the States have thus far been unable to achieve a politically acceptable level of interdistrict equalization.

Alternative Proposals

Because of the seeming intractability of resolving the equalization issue new proposals are constantly being advanced. These proposals approach the target of equalizing resources behind each pupil from two directions. One approach is to expand the geographical basis of local property tax support.[19] The ultimate extension of the geographic base would be a statewide uniform property tax for schools. Phase I of Utah's school finance program stands out as an example, albeit limited, of this approach.

A somewhat less drastic alternative would call for a regional property taxing district consisting of a whole county at a minimum or, in the case of a metropolitan area, perhaps several counties. The metropolitan educational equalization authority proposal in the Advisory Commission's State legislative program exemplifies this latter approach. Local property tax resources in a metropolitan area would be subject to a uniform areawide tax for purposes of creating a fund to be redistributed within the area on the basis of need.

The formation of single countywide school districts—as in Maryland and Nevada—is often advanced as a solution to resource disparities among school districts. County areas may have access to nonproperty taxes—personal income tax supplements in Maryland counties, a State mandated sales tax supplement in Nevada—giving the schools more direct access to local non-property tax resources.

This solution usually raises a chorus of opposition on several grounds. A district with an enrollment of tens of thousands of pupils with the prospect of further growth in enrollment, in the judgment of many, would be too large. A single county board would be insensitive to the varied expectations of its many communities. Thus, citizens accustomed to their separate school systems tend to regard a single countywide district as politically unacceptable. Proposals for a countywide tax levy for schools to insure additional financial support for districts with less wealth run afoul of the pocket-book issue. On educational grounds it is argued that a countywide school levy would enhance the prospects of consolidations to improve educational offerings. Wealthier districts exhibit an understandable reluctance to relinquish control over their local tax resources.

Interdistrict equalization can also be achieved by school district consolidation. The intent of this approach is to organize school districts in a fashion that will make them resemble proportionate parts of the State in terms of pupils and resources. This reduces the need for equalization because larger districts tend to be more comparable in terms of both needs and resources.

Consolidation can be accomplished under State mandate or by provision of State financial incentives. Major shortcomings have been indicated in the financial incentive approach. It is expensive to implement and the final outcome has frequently produced consolidation that might have occurred in any case. The districts that remain, after expected consolidations have occurred, tend to be poor and unwanted by other districts as consolidation partners.

The ultimate in school 'district consolidation is the State takeover of functional and financial responsibility for schools as in Hawaii. Because there are no local levies for schools in that State there is no necessity for interdistrict equalization. On the mainland, efforts to emulate the Hawaiian experience have heretofore never seemed worth pursuing because of the strong tradition and tie-in between local financing and local control.

The more modest intent of having the State assume substantially all financial responsibility for schools while retaining appropriate local policymaking authority is thus designed to achieve that longstanding goal of educators—equalization of educational opportunities—while taking full cognizance of the strong tradition of local identification with local schools. At the 1968 meeting of the Education Commission of the States, Dr. James B. Conant suggested that serious reconsideration be given to the assumption that "local control of schools was a necessary consequence of local financing of the schools and vice versa." He went on to say:

> ". . . I think it may well be that you can have local control of all the vital aspects of the public schools and still have the financing come at the State level through State taxes and not through the local property tax.
>
> "The State money, of course, would be . . . distributed on a per student basis, daily attendance, what-have-you, equally through all the districts of the State. . ."

From then on it would not matter where you lived; you would be getting the same educational service. Dr. Conant then asked, ". . .who can say that, in most States of the Union. . . ?"

James E. Allen, Jr., now U.S. Commissioner of Education, has further explored this approach. Dr. Allen expressed a belief that local school financing now hinders achievement of several important educational objectives including efficient and economic organization of the school system to deal with racial and social imbalances, adequate-sized high schools, orderly collective bargaining, and reasonably equitable provision of educational programs generally.

Local control in school districts lacking enrollment, area and resources in Dr. Allen's view becomes "control of unduly limited opportunities and restricted choices." In the truest sense, local control relates to the quality of education provided for the children of a locality and involves the selection and deployment of the staff and the determination of the program required to meet local educational needs. Shifting the financing responsibility to the State could enhance local control of this character in Dr. Allen's opinion.

To minimize the danger of undue State control, Dr. Allen suggested that safeguards for the preservation and encouragement of local innovation and supplementation be built into State statutes. He stressed the need for the provision of accurate measures of educational need "so that State financing would recognize special situations such as disproportionately large numbers of disadvantaged children, etc."

Fiscal feasibility stands out as the essential precondition to serious State consideration of these suggestions. The Commission's *Fiscal Balance* report provides relevant data for 1966 on the question of fiscal feasibility (table 17). More intensive use of personal income and sales taxes is probable not possible in many States except by relieving a substantial portion of the property tax—specifically the amount for schools in this case.

Assume that a State could have imposed personal income and sales taxes at a level comparable to the average use made in the top ten States using each of these taxes. Twenty-two States could have substituted this yield for school property taxes and ended up even or with a net addition to State general funds. One or two other States might have been added to the list if it were possible to isolate local school support from property taxes from other sources of local support, such as charges for various school services.

Considering the trade-off of school property tax relief for higher personal income and sales taxes, State assumption of substantially all elementary and secondary education costs is not beyond the realm of accomplishment in a substantial number of States—particularly when viewed as a long-range objective. Admittedly, it would be most difficult to achieve in the big States such as New York and California where per pupil expenditures as well as tax burdens are high.

TABLE 17—FISCAL DIMENSIONS OF STATE ASSUMPTION OF PUBLIC SCHOOL COSTS, 1968
(Dollar amounts in millions)

State	% State financed (own sources)	State funds required to replace local funds		Unutilized State personal income and sales tax potential	Overage (+) or shortfall in replacing local funds
		Amount	As % of State-local property tax		
United States	40.4	$14,270	57.8	$ 812	$–2,031
Alabama	73.8	74	83.8	75	+1
Alaska	88.8	11	58.8	18	+7
Arizona	44.8	116	91.5	42	–73
Arkansas	61.4	70	73.2	64	–6
California	34.6	1,929	61.3	1,163	–766
Colorado	27.0	220	71.2	72	–148
Connecticut	31.3	251	64.0	340	+88
Delaware	65.8	30	90.8	37	+7
Florida	52.2	294	50.3	414	+120
Georgia	65.5	136	49.5	161	+25
Hawaii	100.0	–	–	–	–
Idaho	44.9	42	53.3	26	–16
Illinois	22.9	994	81.7	1,013	+19
Indiana	34.6	444	84.6	371	–73
Iowa	17.8	306	68.4	168	–138
Kansas	38.4	155	46.5	109	–46
Kentucky	58.1	98	59.5	88	–10
Louisiana	70.3	106	55.6	183	+67
Maine	34.9	62	50.8	59	–3
Maryland	33.8	310	70.8	245	–65
Massachusetts	13.3	503	49.3	458	–45
Michigan	44.0	646	57.1	564	–82
Minnesota	40.8	297	50.2	254	–43
Mississippi	66.4	54	40.1	14	–40
Missouri	[illegible]	304	69.8	239	–65
Montana	30.7	61	53.5	65	+4
Nebraska	5.4	153	58.1	191	+38
Nevada	42.8	41	86.7	49	+8
New Hampshire	9.8	60	58.0	84	+24
New Jersey	16.7	710	56.3	872	+162
New Mexico	73.5	37	80.0	15	–22
New York	54.3	1,322	42.4	454	–868
North Carolina	78.3	106	39.2	143	+37
North Dakota	28.7	57	87.8	41	–16
Ohio	20.8	849	73.2	897	+48
Oklahoma	48.3	134	70.1	169	+35
Oregon	31.0	204	73.8	121	–83
Pennsylvania	43.2	840	82.8	793	–47
Rhode Island	32.8	65	56.6	81	+16
South Carolina	61.8	80	78.1	71	–9
South Dakota	19.8	66	63.1	48	–18
Tennessee	62.8	175	78.8	176	+1
Texas	48.4	574	63.4	987	+413
Utah	52.9	78	84.5	10	–68
Vermont	36.7	25	53.1	25	–
Virginia	33.5	325	96.5	346	+21
Washington	67.4	168	54.0	138	–30
West Virginia	65.6	71	72.4	102	+31
Wisconsin	22.8	465	71.5	162	–303
Wyoming	40.5	32	67.2	19	–13

Source: ACIR Staff estimates, based on *Fiscal Balance Study*, Tables A-8, D-1.

Footnotes

[1] Sanford, Terry. *But What About the People?* (New York: Harper and Row, 1966), p. 157.

[2] U.S. Department of Health, Education and Welfare, Office of Education, *Digest of Educational Statistics*, 1967 (Washington: U.S. Government Printing Office, 1968), Table 4.

[3] "The Dollar Crisis," *Colorado Municipalities*, August 1968, p. 208.

[4] Gardner, John W. "National Goals in Education," *Goals For Americans* (New York: American Assembly, Columbia University, 1960), p. 95.

[5] Advisory Commission on Intergovernmental Relations, *The Role of the States in Strengthening the Property Tax*, 2 Vols., A-17, Washington, D.C., June 1963.

[6] Advisory Commission on Intergovernmental Relations, *Fiscal Balance in the American Federal System*, Vol. 1, A-31, Washington, D.C., October 1967.

[7] Fels Institute, *Special Education and Fiscal Requirements of Urban School Districts in Pennsylvania*. (Philadelphia: University of Pennsylvania, 1964), p. 22.

[8] Contrast between large city and other school systems in New York are highlighted in Conference of Large City Boards of Education of New York State, *Program 1969*, Albany, October 1968.

[9] Saint Louis Public Schools, *A Tale of Two Cities* (St. Louis: 1968), p. 60.

[10] Advisory Commission on Intergovernmental Relations, *State and Local Finances, Significant Features 1966 to 1969* (Washington, D.C., U.S. Government Printing Office, November 1968) Tables 64 and 65.

[11] See Rammlein, Madaline Kinter. *Tax Limitation Laws*, (Washington: Committee on Educational Finance, National Education Association, 1965). See also, *ibid.*, Table 63.

[12] U.S. Office of Education, *Title I/Year II*, (Washington: U.S. Department of Health, Education and Welfare, n.d.), p. 1.

[13] *Ibid.*, Appendix B, pp. 119-123.

[14] U.S. Congress. Senate Committee on Labor and Public Welfare, *Impacted Areas Legislation; Report and Recommendations*, prepared by Office of Education, Department of Health, Education and Welfare, (Washington: U.S. Government Printing Office, 1965).

[15] Nevada, Legislative Commission. *State Financial Support for Public Schools*, Bulletin No. 69, Legislative Counsel Bureau, January, 1967.

[16] Texas. Governor's Committee on Public School Education, *The Challenge and the Chance*, (Austin, 1968).

[17] McLoone, Eugene. "Decision Points in State Grants to Local Schools," Report to the Education Commission of the States, July, 1967.

[18] Texas. Governor's Committee on Public School Education, *op cit.*

[19] Ohio, Legislative Service Commission. *The Ohio School Foundation Program*, Report No. 94 (Columbus, January 1969), pp. 46-51.

[20] James E. Allen, Jr., "Educational Priorities and the Handicap of Local Financing," Address Before the School Superintendents Work Conference, Teacher's College, Columbia University, July 11, 1968. Dr. Allen was New York State Commissioner of Education at that time.

TABLE A-6–ESTIMATED STATE AND LOCAL REVENUE RECEIPTS FROM OWN SOURCES FOR PUBLIC ELEMENTARY AND SECONDARY SCHOOLS AS A PERCENT OF STATE PERSONAL INCOME, 1958 AND 1968

State and region	1967-68	1957-58	Percent increase
United States	4.6	3.1	48.4
New England	4.1	2.4	70.8
Maine	4.6	2.6	76.9
New Hampshire	4.0	2.9	37.9
Vermont	6.2	3.4	82.4
Massachusetts	3.9	2.3	69.6
Rhode Island	3.2	2.4	33.3
Connecticut	4.5	2.2	104.5
Mideast	4.7	3.0	56.7
New York	5.1	3.2	59.4
New Jersey	4.3	2.8	53.6
Pennsylvania	4.3	2.8	53.6
Delaware	4.9	2.7	81.5
Maryland	4.8	2.7	77.8
Dist. of Columbia	2.8	2.1	33.3
Great Lakes	4.5	2.7	66.7
Michigan	5.1	3.2	59.4
Ohio	4.2	2.6	61.5
Indiana	5.1	2.9	75.9
Illinois	3.9	2.4	62.5
Wisconsin	4.7	2.9	62.1
Plains	4.6	3.4	35.3
Minnesota	5.3	4.1	29.3
Iowa	4.7	3.4	38.2
Missouri	3.9	2.8	39.3
North Dakota	5.5	3.8	44.7
South Dakota	4.6	4.1	12.2
Nebraska	3.3	2.7	22.2
Kansas	4.9	3.4	44.1
Southeast	4.4	3.3	33.3
Virginia	4.5	2.8	60.7
West Virginia	4.6	3.2	43.8
Kentucky	3.9	2.8	39.3
Tennessee	4.1	2.9	41.4
North Carolina	4.2	3.8	10.5
South Carolina	4.8	3.3	45.5
Georgia	4.2	3.4	23.5
Florida	4.5	3.6	25.0
Alabama	3.9	2.7	44.4
Mississippi	4.2	3.3	27.3
Louisiana	5.5	4.3	27.9
Arkansas	4.3	3.7	16.2
Southwest	4.6	3.4	35.3
Oklahoma	4.4	3.6	22.2
Texas	4.3	3.3	30.3
New Mexico	6.0	3.8	57.9
Arizona	6.5	3.9	66.7
Rocky Mountain	5.4	3.9	38.5
Montana	5.9	4.7	25.5
Idaho	4.8	3.3	45.5
Wyoming	5.2	4.3	20.9
Colorado	5.2	3.4	52.9
Utah	6.1	4.8	27.1
Far West[1]	4.8	3.4	41.2
Washington	4.7	3.8	23.7
Oregon	5.7	4.4	29.5
Nevada	5.0	3.0	66.7
California	4.7	3.2	46.9
Alaska	4.7	3.0	56.7
Hawaii	4.9	3.1[2]	58.1

[1] Excluding Alaska and Hawaii.

[2] Based on 1958-59 receipts, 1957-58 data not available.

Source: National Education Association, *Estimates of School Statistics, 1958-59* and *1968-69* (copyright 1959 and 1968 by the National Education Association; all rights reserved); and U.S. Department of Commerce, Office of Business Economics, *Survey of Current Business, August 1968.*

TABLE A-7–ESTIMATED REVENUE RECEIPTS FOR ELEMENTARY AND SECONDARY SCHOOLS, 1968–1969

State and region	Revenue receipts by source (in thousands)				Percent of revenue receipts by source[a]				
	Federal[b]	State	Local and other[c]	Total	Total			Excluding Federal	
					Federal[b]	State	Local	State	Local
50 States and D.C.	$2,463,211	$13,727,567	$17,544,685	$33,735,463	7.3%	40.7%	52.0%	43.9%	56.1%
New England	111,391	488,576	1,272,825	1,882,792	5.9	26.5	67.6	28.1	71.9
Connecticut	25,000	178,000	385,000	588,000	4.4	31.3	64.3	32.8	67.2
Maine	9,944	47,830	80,057	137,831	7.2	34.7	58.0	37.5	62.5
Massachusetts	60,000	195,000	616,000	871,000	6.9	22.4	70.7	24.0	76.0
New Hampshire	4,770	8,780[d]	83,342	96,892	4.9	9.1[d]	86.0	9.8	90.2
Rhode Island	8,158	43,866	72,847	124,871	6.5	35.2	58.3	37.6	62.4
Vermont	3,519	25,000	55,779	84,298	4.2	29.7	66.2	30.9	69.1
Mideast	462,422	3,577,051	4,391,612	8,431,085	5.5	42.4	52.1	44.9	55.1
Delaware	8,000	78,500	21,500	108,000	7.4	72.7	19.9	78.2	21.8
Maryland	52,640	291,295	437,724	781,659	6.7	37.3	56.0	39.9	60.1
New Jersey	60,000	358,000	886,000	1,305,000	4.6	27.5	67.9	28.8	71.2
New York	175,000	1,993,000	1,997,000	4,166,000	4.2	47.8	47.9	49.9	50.1
Pennsylvania	103,583	855,856	833,264	1,802,683	5.5	46.2	48.3	47.8	52.2
Dist. of Columbia*	62,319[e]		116,124	178,443	34.9[e]	. . .	65.1		100.0
Southeast	718,090	3,272,780	1,855,114	5,846,984	12.3	56.0	31.7	63.8	36.2
Alabama	58,000	219,000[f]	88,000	365,000	15.9	60.0[f]	24.1	71.3	28.7
Arkansas	38,000	106,210	82,000	226,210	16.8	46.7	36.4	56.1	43.9
Florida[g]	101,279	563,276	332,435	996,990	10.2	56.5	33.3	62.9	37.1
Georgia	64,931	372,397[h]	151,427	588,755	11.0	63.3[h]	25.7	71.1	28.9
Kentucky	65,000	211,000	135,000	411,000	15.8	51.3	32.8	61.0	39.0
Louisiana	61,000	373,275	160,000	594,275	10.3	62.8	26.9	70.0	30.0
Mississippi	56,980	158,923	79,651	295,554	20.0	53.1	26.9	66.2	33.8
North Carolina	83,000	434,000	128,000	645,000	12.9	67.3	19.8	77.2	22.8
South Carolina	41,000	215,000	82,000	338,000	12.1	63.6	24.3	72.4	27.6
Tennessee	55,000	224,000	182,000	461,000	11.9	48.7	39.4	55.3	44.7
Virginia	65,000	285,000	350,000	700,000	9.3	40.7	50.0	44.9	55.1
West Virginia	27,500	113,000	84,600	225,100	12.2	50.2	37.6	57.1	42.9
Great Lakes	324,443	2,247,146	4,204,495	6,776,083	4.8	33.2	62.0	34.8	65.2
Illinois	95,406	486,329	1,241,093	1,822,828	5.2	26.7	68.1	28.1	71.9
Indiana	44,000	308,000	556,000	908,000	4.8	34.0	61.1	35.8	64.2
Michigan	67,050	752,404	877,913	1,697,377	3.9	44.3	51.7	46.1	53.9
Ohio	84,400	510,000	1,025,000	1,619,400	5.2	31.5	63.3	33.2	66.8
Wisconsin	33,637	189,362	505,480	728,479	4.6	26.0	69.4	27.2	72.8
Plains	174,583	860,501	1,559,616	2,594,620	6.7	33.2	60.1	35.6	64.4
Iowa[j]	20,300	156,000	302,700	479,000	4.2	32.6	63.2	34.0	66.0
Kansas	31,928	118,758	258,295	408,981	7.8	29.2	63.0	31.7	68.3
Minnesota	45,000	294,000	340,000	679,000	6.6	43.3	50.1	46.4	53.6
Missouri	40,868	222,193	385,121	648,182	6.3	34.3	59.4	36.6	63.4
Nebraska	14,257	33,000	140,000	187,257	7.6	17.6	74.8	19.1	80.9
North Dakota	7,750	25,550	64,500	97,800	7.9	26.1	66.0	28.6	71.4
South Dakota	14,400	11,000	71,000	96,400	14.9	11.4	73.7	13.4	86.6
Southwest	288,478	1,095,797	964,000	2,328,282	11.5	47.1	41.4	53.2	46.8
Arizona	22,089	151,705	101,113	274,907	8.0	55.2	36.8	60.1	39.9
New Mexico	29,089	119,212[i]	44,546	192,847	15.1	61.8[i]	23.1	72.6	27.4
Oklahoma	42,00	116,000	195,000	352,000	11.9	32.7	55.4	37.1	62.9
Texas[k]	175,299	709,880	623,350	1,508,529	11.6	47.1	41.3	53.3	46.7
Rocky Mountains	68,094	275,646	496,375	840,687	8.2	32.8	59.0	35.8	64.2
Colorado	26,000	88,000	252,000	366,000	7.1	24.0	68.9	25.9	74.1
Idaho*	9,575	42,000	51,000	102,575	9.3	40.9	49.7	45.2	54.8
Montana*	9,000	35,000	83,000	127,000	7.1	27.6	65.4	29.7	70.3
Utah	11,000	94,640	76,375	182,112	6.1	52.0	41.9	55.6	44.4
Wyoming	13,000	16,000	34,000	63,000	20.6	25.4	54.0	32.0	68.0
Far West	290,482	1,730,000	2,770,030	4,790,100	6.1	36.2	57.8	38.5	61.5
California	215,000	1,260,000	2,200,000	3,675,000	5.9	34.3	59.9	36.4	63.6
Nevada	6,500	36,300	48,100	90,900	7.2	38.8	54.0	41.7	58.3
Oregon	28,992	76,300	326,838	432,200	6.7	17.7	75.6	18.9	81.1
Washington	40,000	365,000	195,000	600,000	6.7	60.8	32.5	65.2	34.8
Alaska	16,830	32,780	21,700	73,310	25.7	44.7	29.6	59.3	40.7
Hawaii	15,300	130,000	8,000	153,300	10.0	84.8	5.2	94.2	5.8

*Estimated by NEA Research Division.

[a] Percents may not add up to 100.00 because of rounding.

[b] Includes Federal grant programs to State and local school systems, including funds under the Elementary and Secondary Education Act, Economic Opportunity Act, Aid to Federally Impacted Areas, National Defense Education Act, Manpower Development and Training, Vocational Education, etc. Funds received from the School Lunch and Milk Program are included, but reporting on the money value of commodities received is incomplete. ESEA revenues have generally been estimated on an anticipated cash expenditure basis at a level similar to outlays in the previous year.

[c] Includes revenue receipts from local and intermediate sources, gifts, and tuition and fees from patrons.

[d] Excludes State's share of teacher retirement and social security.

[e] Includes Federal appropriations for capital outlay, civil defense, Capitol Page School, and other Federally funded programs listed in footnote b above.

[f] Includes Social Security and Teacher Retirement for all educational agencies and institutions.

[g] Excludes revenues for public junior colleges which are operated by a junior college district board of trustees.

[h] Includes State payments of $20,881,820 for teacher retirement.

[i] Includes State appropriation for area vocational schools and junior colleges.

[j] Includes revenues for operation of the Public School Finance Division which is not a part of the State department of education.

[k] Excludes revenues for kindergartens.

Source: National Education Association, *Estimates of School Statistics 1968-69*, Research Report 1968-R16. (Copyright 1968 by the National Education Association; all rights reserved).

TABLE A-8—SCHOOL ENROLLMENT AND SCHOOL SYSTEMS WITH SELECTED CHARACTERISTICS BY STATE, OCTOBER 1966

State	Total enrollment (000 omitted)	Number of school systems	Coterminous with city or county	With at least half of pupils enrolled		
				Size class	Number	Enrollment (000 omitted)
United States	43,832	23,390	2,212	6,000+	879	25,601
Alabama	834	119	70	6,000+	38	571
Alaska	62	29	24	12,000+	2	36
Arizona	388	247	7	6,000+	13	237
Arkansas	440	402	11	1,200+	61	240
California	4,887	1,240	146	12,000+	82	2,850
Colorado	505	181	14	12,000+	9	283
Connecticut	583	178	120	6,000+	27	325
Delaware	114	51	3	6,000+	10	69
Dist. of Columbia	147	1	1	—	–	–
Florida	1,326	67	67	25,000+	11	850
Georgia	1,081	194	182	6,000+	30	630
Hawaii	166	1	–	—	–	–
Idaho	180	120	11	6,000+	17	102
Illinois	2,220	1,350	60	3,000+	124	1,408
Indiana	1,152	400	34	6,000+	34	583
Iowa	640	478	3	1,200+	73	387
Kansas	528	360	21	3,000+	30	274
Kentucky	684	202	91	3,000+	60	468
Louisiana	819	68	61	12,000+	18	507
Maine	225	334	13	1,200+	38	120
Maryland	805	24	24	25,000+	5	610
Massachusetts	1,078	398	42	6,000+	42	560
Michigan	2,079	935	81	6,000+	84	1,128
Minnesota	836	1,287	31	3,000+	52	488
Mississippi	508	161	49	3,000+	78	446
Missouri	958	870	32	6,000+	37	477
Montana	170	713	14	1,200+	28	104
Nebraska	329	2,222	22	1,200+	36	188
Nevada	109	17	17	25,000+	2	88
New Hampshire	134	180	17	1,200+	18	70
New Jersey	1,345	605	306	3,000+	125	683
New Mexico	268	90	8	6,000+	10	183
New York	3,354	828	44	6,000+	83	2,088
North Carolina	1,297	168	78	6,000+	66	857
North Dakota	151	539	8	600+	46	84
Ohio	2,357	713	60	3,000+	190	1,648
Oklahoma	590	980	7	3,000+	27	318
Oregon	468	390	8	3,000+	34	288
Pennsylvania	2,221	803	142	3,000+	222	1,619
Rhode Island	162	40	8	6,000+	7	92
South Carolina	643	108	26	6,000+	35	450
South Dakota	172	1,894	60	300+	46	98
Tennessee	879	151	88	6,000+	32	578
Texas	2,530	1,310	41	12,000+	38	1,287
Utah	292	40	24	12,000+	7	188
Vermont	87	267	6	600+	38	50
Virginia	1,000	131	128	12,000+	18	542
Washington	787	348	6	6,000+	30	581
West Virginia	422	55	55	6,000+	25	331
Wisconsin	863	588	67	3,000+	60	494
Wyoming	88	177	6	1,200+	12	62

Source: U. S. Department of Commerce, Bureau of the Census, *Governmental Organization*, 1967 Census of Governments, Vol. 1, (Washington, GPO, 1968), Table 13.

TABLE A-8—RATES OF GROWTH OF PUBLIC SCHOOL TAXATION AND PROPERTY TAX COLLECTIONS, 1957-58 TO 1963-64

(Dollar amounts in millions)

State and region	Taxation and appropriations				Local property tax collections			
	1963-1964	1957-1958	Difference	% Increase	1963-1964	1957-1958	Difference	% Increase
United States	$11,150.0	$6,668.2	$4,481.8	67.4	$19,320.8	$12,407.5	$6,913.3	55.7
New England								
Maine	56.6	33.3	23.3	70.0	103.3	68.9	34.4	49.9
New Hampshire	45.3	27.1	18.2	67.2	82.0	52.7	29.3	55.6
Vermont	26.2	16.2	10.0	61.7	41.4	28.8	12.6	43.8
Massachusetts	339.8	197.6	142.2	72.0	837.0	590.0	247.0	41.9
Rhode Island	45.2	31.1	14.1	45.3	98.3	65.6	32.7	49.8
Connecticut	213.1	97.2	115.9	119.2	377.3	231.1	146.2	63.3
Mideast								
New York	1,263.4	790.2	473.2	59.9	2,525.1	1,772.5	752.6	42.5
New Jersey	555.4	309.5	245.9	79.5	1,025.5	631.5	394.0	62.4
Pennsylvania	599.7	359.4	240.3	66.9	822.4	591.4	231.0	39.1
Delaware	11.5	5.8	5.7	98.3	23.3	13.3	10.0	75.2
Maryland	218.6	119.1	99.5	83.5	310.4	187.0	123.4	66.0
Dist. of Columbia	66.9	41.7	25.2	60.4	70.7	52.8	17.9	33.9
Great Lakes								
Michigan	502.2	333.8	168.4	50.4	915.2	610.5	304.7	49.9
Ohio	761.3	433.9	327.4	75.5	1033.2	646.9	386.3	59.7
Indiana	341.5	207.0	134.5	65.0	558.5	334.2	224.3	67.1
Illinois	800.8	477.5	323.3	67.7	1,308.4	895.0	413.4	46.2
Wisconsin	308.9	198.9	110.0	55.3	479.0	342.4	136.6	39.9
Plains								
Minnesota	245.6	143.1	102.5	71.6	483.5	295.9	187.6	63.4
Iowa	252.9	158.2	94.7	59.9	379.5	236.4	143.1	60.5
Missouri	245.8	138.6	107.2	77.3	362.8	235.6	127.2	54.0
North Dakota	41.6	25.9	15.7	60.6	68.5	54.3	14.2	26.2
South Dakota	58.4	42.6	15.8	37.1	87.6	65.0	22.6	34.8
Nebraska	119.0	67.6	51.4	76.0	178.2	116.9	61.3	52.4
Kansas	190.0	124.0	66.0	53.2	305.4	203.3	102.1	50.2
Southeast								
Virginia	172.7	102.7	70.0	68.2	227.8	138.6	89.2	64.4
West Virginia	60.6	39.1	21.5	55.0	86.5	55.6	30.9	55.6
Kentucky	81.1	62.2	18.9	30.4	124.3	102.5	21.8	21.3
Tennessee	84.6	54.0	30.6	56.7	190.3	116.8	73.5	62.9
North Carolina	80.4	51.1	29.3	57.3	198.3	126.5	71.8	56.8
South Carolina	50.1	31.1	19.0	61.1	81.3	55.7	25.6	46.0
Georgia	93.8	54.7	39.1	71.5	213.0	135.3	77.7	57.4
Florida	200.4	102.5	97.9	95.5	440.4	228.8	211.6	92.5
Alabama	44.9	28.1	16.8	59.8	79.7	53.3	26.4	49.5
Mississippi	52.4	31.2	21.2	67.9	93.6	60.9	32.7	53.7
Louisiana	83.8	52.2	31.6	60.5	139.4	96.4	43.0	44.6
Arkansas	58.2	34.0	24.2	71.2	79.7	46.9	32.8	69.9
Southwest								
Oklahoma	112.3	68.0	44.3	65.1	151.1	105.2	45.9	43.6
Texas	424.4	266.5	157.9	59.2	837.4	514.4	323.0	62.8
New Mexico	26.3	10.4	15.9	152.9	42.3	23.5	18.8	80.0
Arizona	108.3	63.4	44.9	70.8	150.8	70.2	80.6	114.8
Rocky Mountain								
Montana	56.7	37.2	19.5	52.4	90.1	68.5	21.6	31.5
Idaho	38.4	27.5	10.9	39.6	65.6	48.0	17.6	36.7
Wyoming	21.5	13.0	8.5	65.4	39.1	25.1	14.0	55.8
Colorado	169.6	95.1	74.5	78.3	229.6	147.6	82.0	55.6
Utah	57.2	39.1	18.1	46.3	82.9	57.2	25.7	44.9
Far West								
Washington	130.4	70.5	59.9	85.0	217.4	129.2	88.2	68.3
Oregon	168.0	100.6	67.4	67.0	216.6	148.3	68.3	46.1
Nevada	21.4	9.8	11.6	118.4	34.7	19.6	15.1	77.0
California	1,473.9	787.6	686.3	87.1	2,681.9	1,456.1	1,225.8	84.2
Alaska	8.9	4.7	4.2	89.4	12.5	6.6	5.9	89.4
Hawaii	17.5	33.0	−15.5	−47.0	30.9	16.0	14.9	93.1

Sources: U.S. Department of Health, Education and Welfare, Office of Education, *Statistics of State School Systems, 1963-64* (Table 28) *and 1957-58* (Table 25). U. S. Bureau of the Census *Governmental Finances in 1963 and Historical Statistics on Governmental Finances and Employment* (1962 Census of Governments), Vol. VI, No. 4.

TABLE A-10–ESTIMATED AMOUNT AND PERCENT OF FLAT AND EQUALIZING EDUCATIONAL GRANTS, BY STATE, 1966-67

State	Total State grants	Flat grants		Equalizing grants	
	Amount (in millions)	Amount (in millions)	Percent of total	Amount (in millions)	Percent of total
United States	9,845.2	2,970.2	30.8	6,875.0	69.2
Alabama	185.3	20.8	11.2	164.5	88.8
Alaska	34.5	16.1	46.7	18.4	53.3
Arizona	80.7	69.0	85.5	11.7	14.5
Arkansas	75.8	11.8	15.5	64.0	84.5
California	1,019.7	680.7	66.8	339.0	33.2
Colorado	83.8	32.7	39.1	51.1	60.9
Connecticut	106.3	102.3	96.3	4.0	3.7
Delaware	58.2	58.2	100.0	0.0	0.0
Dist. of Columbia	—	—	—	—	—
Florida	339.0	86.8	25.6	252.2	74.4
Georgia	287.0	14.3	5.0	272.7	95.0
Hawaii	—	—	—	—	—
Idaho	31.7	.1	0.3	31.6	99.7
Illinois	273.6	131.0	47.9	142.6	52.1
Indiana	238.5	57.8	24.2	180.7	75.8
Iowa	51.0	46.7	91.7	4.3	8.3
Kansas	98.1	12.1	12.3	86.0	87.7
Kentucky	149.3	2.4	1.6	146.9	98.4
Louisiana	276.6	53.9	19.5	222.7	80.5
Maine	29.9	1.6	5.5	28.3	94.5
Maryland	144.7	27.5	19.0	117.2	81.0
Massachusetts	155.8	23.8	15.2	132.0	84.8
Michigan	507.1	31.2	6.2	475.9	93.8
Minnesota	205.7	48.5	23.6	157.2	76.4
Mississippi	112.9	25.9	23.0	87.0	77.0
Missouri	156.4	135.9	86.9	20.5	13.1
Montana	30.0	7.0	23.3	23.0	76.7
Nebraska	6.2	6.2	100.0	-0-	0.0
Nevada	31.1	.2	0.8	30.9	99.2
New Hampshire	8.1	4.6	56.2	3.5	43.8
New Jersey	222.1	126.7	57.0	95.4	43.0
New Mexico	106.6	106.4	99.8	0.2	0.2
New York	1,462.0	12.5	0.9	1,449.5	99.1
North Carolina	280.3	280.3	100.0	-0-	0.0
North Dakota	20.5	2.5	12.3	18.0	87.7
Ohio	327.7	.3	0.1	327.4	99.9
Oklahoma	74.6	22.7	30.5	51.9	69.5
Oregon	86.4	72.8	84.3	13.6	15.7
Pennsylvania	583.7	62.4	10.7	521.3	89.3
Rhode Island	29.4	-0-	0.0	29.4	100.0
South Carolina	143.5	143.5	100.0	-0-	0.0
South Dakota	10.3	2.8	27.1	7.5	72.9
Tennessee	170.1	6.9	4.0	163.2	96.0
Texas	554.9	225.5	40.6	329.4	59.4
Utah	86.9	5.4	6.3	81.5	93.7
Vermont	15.2	3.7	24.3	11.5	75.7
Virginia	152.7	29.5	19.3	123.2	80.7
Washington	284.9	51.2	18.0	233.7	82.0
West Virginia	93.3	41.0	43.9	52.3	56.1
Wisconsin	141.3	61.2	43.3	80.1	56.7
Wyoming	21.7	3.7	17.1	18.0	82.9

Source: U. S. Department of Health, Education and Welfare, Office of Education, *Public School Finance Program 1966-67*, By State.

TABLE A-11–EQUALIZING GRANTS AS A PERCENT OF TOTAL STATE GRANTS FOR EDUCATION FOR SELECTED YEARS, 1953-54, 1957-58, 1962-63, AND 1966-67

State	1966-67	1962-63	1957-58	1953-54
All States	69.2	61.7	58.6	47.7
Alabama	88.8	87.2	87.1	87.3
Alaska	53.3	-0-	-0-	-0-
Arizona	14.5	-0-	-0-	-0-
Arkansas	84.5	93.3	80.4	74.2
California	33.2	30.4	30.0	28.6
Colorado	60.9	83.6	81.3	60.7
Connecticut	3.7	-0-	2.6	5.1
Delaware	-0-	-0-	-0-	-0-
Dist. of Columbia	-0-	-0-	-0-	-0-
Florida	74.4	76.5	71.7	98.0
Georgia	95.0	98.2	94.0	55.6
Hawaii	-0-	-0-	-0-	-0-
Idaho	99.7	98.9	98.3	98.2
Illinois	52.1	47.6	58.4	55.0
Indiana	75.8	98.4	98.4	98.2
Iowa	8.3	14.3	17.9	16.2
Kansas	87.7	55.7	72.9	67.8
Kentucky	98.4	97.9	98.2	16.9
Louisiana	80.5	85.5	51.7	14.0
Maine	94.5	95.0	94.5	92.9
Maryland	81.0	38.4	63.4	42.7
Massachusetts	84.8	69.2	71.3	73.7
Michigan	93.8	76.9	77.0	52.7
Minnesota	76.4	72.6	24.5	11.5
Mississippi	77.0	72.2	73.4	40.0
Missouri	13.1	14.0	15.0	7.8
Montana	76.7	87.3	83.1	53.9
Nebraska	-0-	-0-	-0-	(1)
Nevada	99.2	98.4	99.3	6.2
New Hampshire	43.8	55.1	66.2	95.1
New Jersey	43.0	32.9	37.6	33.4
New Mexico	.2	.1	.6	.9
New York	99.1	99.9	80.0	86.1
North Carolina	-0-	-0-	6.5	14.4
North Dakota	87.7	83.3	48.4	42.4
Ohio	99.9	99.9	99.9	33.4
Oklahoma	69.5	74.4	74.1	74.7
Oregon	15.7	17.0	17.7	6.1
Pennsylvania	89.3	91.5	95.1	96.8
Rhode Island	100.0	100.0	16.4	3.7
South Carolina	-0-	-0-	-0-	-0-
South Dakota	72.9	-0-	-0-	-0-
Tennessee	96.0	(2)	80.7	69.3
Texas	59.4	54.9	40.9	35.8
Utah	93.7	97.4	97.0	97.0
Vermont	75.7	-0-	80.9	81.5
Virginia	80.7	23.3	13.0	5.4
Washington	82.0	29.1	37.2	38.9
West Virginia	56.1	78.2	87.3	95.7
Wisconsin	56.7	45.6	33.1	24.0
Wyoming	82.9	83.6	82.9	3.5

[1] Less than .05 percent.

[2] Omitted for lack of data.

Source: U.S. Department of Health, Education and Welfare, Office of Education, *State Programs for Public School Support 1962-63*, *Public School Financing Programs 1957-58*, and unpublished data for 1966-67 (Washington: U.S. Government Printing Office).

TABLE A-12.—RATIOS OF CLASSROOM UNIT EXPENDITURES AT ONE SELECTED PERCENTILE TO ANOTHER, BY STATE: 1959-60

State	Ratio of high to low (98th to 2d percentile)	Ratio of high to median (98th to 50th percentile)	Ratio of median to low (50th to 2d percentile)
(1)	(2)	(3)	(4)
UNITED STATES	3.88	1.75	2.21
Alabama	1.62	1.31	1.24
Alaska	1.63	1.11	1.47
Arizona	2.30	1.56	1.47
Arkansas	2.45	1.71	1.43
California	1.91	1.34	1.43
Colorado	1.89	1.28	1.48
Connecticut	2.02	1.47	1.38
Delaware	1.87	1.44	1.30
Florida	1.53	1.26	1.22
Georgia	2.26	1.71	1.32
Idaho	1.81	1.36	1.33
Illinois	2.49	1.50	1.66
Indiana	2.68	1.39	1.93
Iowa	2.52	1.39	1.82
Kansas	2.63	1.37	1.92
Kentucky	2.45	1.83	1.34
Louisiana	1.47	1.24	1.19
Maine	2.14	1.35	1.59
Maryland	1.83	1.29	1.37
Massachusetts	1.82	1.37	1.33
Michigan	3.49	1.61	2.17
Minnesota	3.35	1.38	2.43
Mississippi	2.30	1.65	1.40
Missouri	3.98	1.51	2.63
Montana	2.29	1.37	1.67
Nebraska	2.75	1.37	2.00
Nevada	1.37	1.10	1.24
New Hampshire	1.95	1.29	1.51
New Jersey	2.10	1.33	1.58
New Mexico	1.51	1.36	1.11
New York	1.84	1.40	1.31
North Carolina	1.83	1.56	1.17
North Dakota	2.81	1.77	1.59
Ohio	2.61	1.58	1.66
Oklahoma	1.74	1.22	1.43
Oregon	1.58	1.19	1.33
Pennsylvania	1.98	1.44	1.37
Rhode Island	1.75	1.28	1.39
South Carolina	1.85	1.30	1.43
South Dakota	2.74	1.34	2.05
Tennessee	2.25	1.57	1.44
Texas	2.06	1.32	1.56
Utah	1.42	1.20	1.18
Vermont	2.30	1.45	1.59
Virginia	2.95	2.02	1.46
Washington	1.55	1.24	1.29
West Virginia	1.77	1.36	1.30
Wisconsin	3.84	1.50	2.55
Wyoming	1.98	1.50	1.32

Note.—The District of Columbia and Hawaii are not included because each operated as a single school system in 1959-60 with only a single expenditure per classroom unit. They are, however, included in data for the United States.

Source: U.S. Department of Health, Education and Welfare, Office of Education, *Profiles in School Support, a Decennial Overview*, p. 71.

TABLE A-13–ESTIMATED INCREASE IN STATE AID REQUIRED TO CLOSE EQUALIZATION "DOLLAR GAP" 1940, 1950, 1960

(Dollar amounts in millions)

State	1940		1950		1960	
	Amount	Percent of state education aid	Amount	Percent of state education aid	Amount	Percent of state education aid
United States	$255.8	32.4	$404.5	19.7	$755.4	14.4
Alabama	3.8	31.3	2.6	4.9	5.2	4.5
Alaska	—	—	—	—	0.9	10.7
Arizona	0.2	3.7	2.4	21.3	8.0	12.7
Arkansas	1.6	17.9	2.4	7.0	3.9	8.9
California	18.2	20.6	32.7	14.2	71.2	9.5
Colorado	2.3	74.2	4.1	36.4	7.4	22.0
Connecticut	2.4	135.7	3.8	28.7	9.0	18.0
Delaware	0.3	11.8	0.5	7.8	2.1	5.2
Florida	3.0	23.1	4.8	9.5	9.2	4.8
Georgia	4.4	26.5	3.9	7.2	6.8	5.1
Idaho	0.7	27.0	1.0	18.1	1.7	10.4
Illinois	22.8	137.4	31.6	65.0	68.9	30.1
Indiana	4.7	22.3	12.7	21.1	32.2	31.3
Iowa	7.1	489.3	12.2	48.0	14.1	36.4
Kansas	6.7	85.4	7.8	35.1	11.0	27.0
Kentucky	1.4	14.1	3.1	11.0	4.5	6.5
Louisiana	6.2	29.9	3.5	5.4	7.2	4.5
Maine	0.9	40.7	1.8	29.7	4.0	27.9
Maryland	1.1	18.0	3.7	16.0	13.8	18.4
Massachusetts	4.5	45.7	9.1	35.1	18.6	27.6
Michigan	13.2	28.5	23.7	17.1	64.0	21.1
Minnesota	7.0	38.0	12.8	28.4	20.4	15.6
Mississippi	2.9	33.9	7.5	24.5	4.3	5.1
Missouri	5.0	21.2	11.6	23.3	28.8	31.7
Montana	1.4	44.7	2.6	28.7	2.7	15.8
Nebraska	4.0	218.0	7.5	208.0	9.4	138.2
Nevada	0.2	32.9	0.5	20.5	1.3	8.6
New Hampshire	0.4	65.1	1.1	132.7	1.9	89.8
New Jersey	9.3	41.0	14.4	52.4	28.1	20.5
New Mexico	0.8	13.2	1.0	4.5	0.7	1.2
New York	51.2	39.5	50.1	21.4	70.2	10.4
North Carolina	3.3	10.7	3.1	3.0	6.4	3.4
North Dakota	0.8	26.8	3.1	46.0	3.5	19.7
Ohio	10.1	18.8	19.7	23.2	49.4	28.8
Oklahoma	2.0	14.2	3.8	9.2	9.5	12.7
Oregon	2.0	77.8	4.0	17.9	4.0	7.0
Pennsylvania	20.7	36.3	35.8	32.3	38.3	9.3
Rhode Island	0.5	61.4	1.3	38.2	2.2	21.1
South Carolina	4.1	37.5	4.2	11.7	5.1	7.2
South Dakota	1.3	47.0	3.7	116.8	6.9	107.0
Tennessee	1.6	14.1	3.5	8.4	11.1	10.6
Texas	8.2	18.9	12.7	9.7	47.3	14.6
Utah	0.6	11.7	0.7	4.1	2.0	5.3
Vermont	0.4	36.7	0.8	27.6	1.7	27.2
Virginia	3.0	25.9	5.4	15.8	16.0	19.0
Washington	2.0	9.2	4.2	6.2	8.2	5.2
West Virginia	1.0	6.0	2.8	5.1	3.9	6.1
Wisconsin	7.0	61.1	11.9	49.5	31.5	46.5
Wyoming	0.7	41.5	1.4	26.7	1.0	6.0

Note: Equalization "dollar gap" means the difference between the amount spent on classrooms supported below the State median and the amount required to support classrooms at the State median expenditure. The calculation for 1940 is based on State aid data for 1942 and probably understates the dollar gap for that year. Hawaii and the District of Columbia are omitted from the table because each constitutes a single school system.

Source: Forrest W. Harrison and Eugene P. McLoone, *Profiles in School Support*, U. S. Department of Health, Education, and Welfare, Office of Education (GPO: Washington), 1965, Table 23 and U.S. Department of Commerce, Bureau of the Census, *Revised Summary of State Government Finances*, 1942-1960 and *Compendium of State Government Finances 1960*.

Chapter IV

Financing Welfare and Health Programs

This chapter focuses attention on the shortcomings in the present allocation of responsibility among Federal, State and local governments for the financing of the poverty-related functions–public welfare and health programs. More specifically, it underscores the need for: (a) assumption by the National Government of complete responsibility for the financing of public welfare programs including Medicaid and (b) incorporation by State governments of an equalization factor into their aid systems for local public health and hospital programs.

FINANCING PUBLIC WELFARE–FEDERAL RESPONSIBILITY

Since enactment of the Social Security Act in 1935, the United States has relied primarily on a system of "poor relief" that is both intergovernmental in character and "categorical" in scope. The categorical nature of our Federal-State public welfare system reflects a rather deeply-rooted belief that public aid should be restricted to those who are both virtually destitute and demonstrably incapable of attaining economic self-sufficiency. As a result, these federally-aided State administered programs provide public assistance only to particular groups that are both poor and helpless. Collectively, these five federally aided programs are referred to as categorical assistance–for the aged (OAA), families with dependent children (AFDC), the blind (AB), the permanently and totally disabled (APTD) and the medically indigent (Medicaid).

In theory at least, the able-bodied poor, can receive income support under general assistance, a program financed completely from State and local resources. In practice, most of the "working poor" or the employable poor are not eligible for income support from public funds.

The categorical aid system has also come under heavy criticism because, until quite recently, welfare payments were reduced dollar-for-dollar as earnings of recipients increased. In effect, this constituted a 100 percent marginal tax rate on earnings for welfare recipients–hardly an incentive to seek gainful employment. Under the 1967 amendments, however, States are required (effective July 1, 1969) to disregard all earnings of school children, plus the first $30 per month of other family earnings as well as one-third of the remainder in computing benefits for families with dependent children. Even this marginal tax rate of 67 percent, however, is still high.

Both the lack of universal coverage of the poor and the built-in disincentives to gainful employment stand out as major arguments in favor of the "negative income tax." Under such a plan, the Federal tax structure would be used to narrow or eliminate the poverty gap–the difference between actual income and the critical level of income that places the individual or family above the poverty line. This difference would be made up by the payment of cash subsidies which are, in effect, negative taxes. Although proponents differ as to whether the negative income tax should replace or supplement present public assistance programs, this proposal is not further discussed here since these plans are not intergovernmental in nature, involving as they do direct payments to the poor.[1]

Because of the growing interstate disparities in welfare costs and program benefits, the second major characteristic–its intergovernmental nature–is also coming under heavy fire. Unlike education, the State and local public welfare function has been heavily supported from Federal funds since the Depression of the 1930's, and in 1968, Federal aid dollars accounted for more than half of all State and local expenditure for "categorical" public assistance.

It is significant that federally-aided public assistance programs constituted the first major effort at Federal-State cooperation in an area that up to that time had been left almost entirely to local governments. The availability of substantial Federal financing and Congressional insistence that the States set up categorical programs to administer Federal welfare aid quickly forced the States into this field in the 1930's.

Current Magnitudes and Trends

Government financing. During 1968, Federal, State and local governments spent more than $9.8 billion for their public assistance programs (table 18). This was about four times the 1950 magnitude and reflects both

TABLE 18–TOTAL PUBLIC ASSISTANCE EXPENDITURES, BY SOURCE OF FUNDS, AND RECIPIENTS AND MONTHLY PAYMENTS FOR SELECTED PROGRAMS, SELECTED YEARS 1950 to 1968
(Dollar amounts in millions, except monthly money payments)

Item	1968	1965	1960	1955	1950
Expenditures for year					
Total	$9,881	$5,869	$4,039	$2,940	$2,489
By source:					
Federal	5,245	3,179	2,055	1,441	1,096
Percent	53.1	54.2	50.9	49.0	44.0
State	3,296	1,958	1,459	1,110	1,128
Percent	33.4	33.4	36.1	37.8	45.3
Local	1,341	732	525	389	265
Percent	13.6	12.5	13.0	13.2	10.6
Selected programs:					
Old age assistance	1,991	2,179	2,015	1,686	1,511
Aid to families with dependent children[1]	3,007	1,801	1,131	684	560
Medical assistance[2]	3,408	—	—	—	—
General assistance	535	454	481	330	383
Number of recipients of money payments[3] (000)					
Old age assistance	2,019	2,087	2,305	2,538	2,786
Aid to families with dependent children[1]	5,820	4,396	3,073	2,238	2,233
General assistance (cases)	356	310	431	314	413
Average monthly money payments[3]					
Old age assistance	68	63	58	50	43
Aid to families with dependent children	170	137	106	88	71
General assistance (per case)	93	69	87	55	47

Note: Beginning October 1950, includes Puerto Rico and Virgin Islands, and beginning 1960, Guam. Number of recipients and average monthly payments exclude vendor payments for medical care (i.e., payments made directly to suppliers of medical care) and cases receiving only such payments. Total expenditures for year include vendor payments for medical care and expenditures for administration, services, and training.

[1] Includes the children and/or both parents, or/caretaker other than a parent in families where the needs of such adults were considered in determining the amount of assistance.

[2] Prior to the enactment of "Medicaid," medical and hospital vendor payments were included in the basic categorical programs.

[3] As of December, except 1968 as of June.

Source: Department of Health, Education, and Welfare, Social and Rehabilitation Service.

the expansion of programs and price level increases. Despite this increase, this function has grown quite modestly as a component of total general expenditure. Indeed, while public welfare accounted for 8.8 percent of total State and local general expenditure in 1967, this was virtually unchanged from 10 years earlier but considerably below the 13.3 percent figure registered in 1942.

The Federal Government has increased its relative financial contribution between 1950 and 1968, the State contribution has dropped, while the local government share has remained virtually unchanged since 1955. The relative importance of these three sources of finance, however, differs markedly among the particular States, reflecting both the nature of the Federal grant-in-aid and State-local willingness and ability to support public welfare (fig. 11 and tables A-14 and A-15*). In general, the Federal share of public assistance tends to be highest in the Southern States–e.g., Mississippi (78.6 percent), Georgia (76.5 percent), Kentucky (76.2 percent).

Program recipients. As of December 1968, 9.7 million Americans were receiving either categorical or general assistance. By far the largest number, some 6.1 million or 63 percent, received assistance under Aid to Families with Dependent Children–a category that has grown consistently and rapidly during the 1960's. An additional 21 percent were included under Old-Age Assistance. This category, however, has been of declining importance ever since 1950, both in relative terms and in absolute numbers–a decline due in part to expanded social security coverage and benefits. Passage of the Medicare program also seems likely to diminish further the number of recipients in this category. Thus as more of the needs of the elderly are covered by social insurance programs, this group will have some–but diminishing–need for turning to public assistance. A similar relationship with the social insurance system may also account for the declining number of recipients under Aid to the Blind as this ailment is especially common among the elderly. As of December 1968, 82,000 individuals received public assistance payments under this program.

The two other programs, Aid to the Permanently and Totally Disabled and General Assistance, accounted for roughly equivalent numbers of recipients–703,000 and 827,000 respectively. The former, however, has been steadily increasing in numbers ever since it was introduced in 1950 while the latter has declined continuously during the early 1960's, although there has been some increase in recipients recently.

Interstate Variation in Public Assistance Program Benefits

For each of the five public assistance programs, there is a wide diversity among States in program benefits. Average monthly benefits per recipient for Old Age Assistance during December 1968, for example, ranged from a low of $35.75 in Mississippi to a high of $116.15 in New Hampshire, compared to $69.50 for the nation as a whole (table 19). Payments for Aid to the Blind varied from the Mississippi low of $44.70 per recipient to the California high of $144.20–with a United States average of $92.15. Similarly, payments for Aid to the Permanently and Totally Disabled extended from a low of $44.20 per recipient, again in Mississippi, to a high of $133.85 in Iowa–while the national figure was $82.55.

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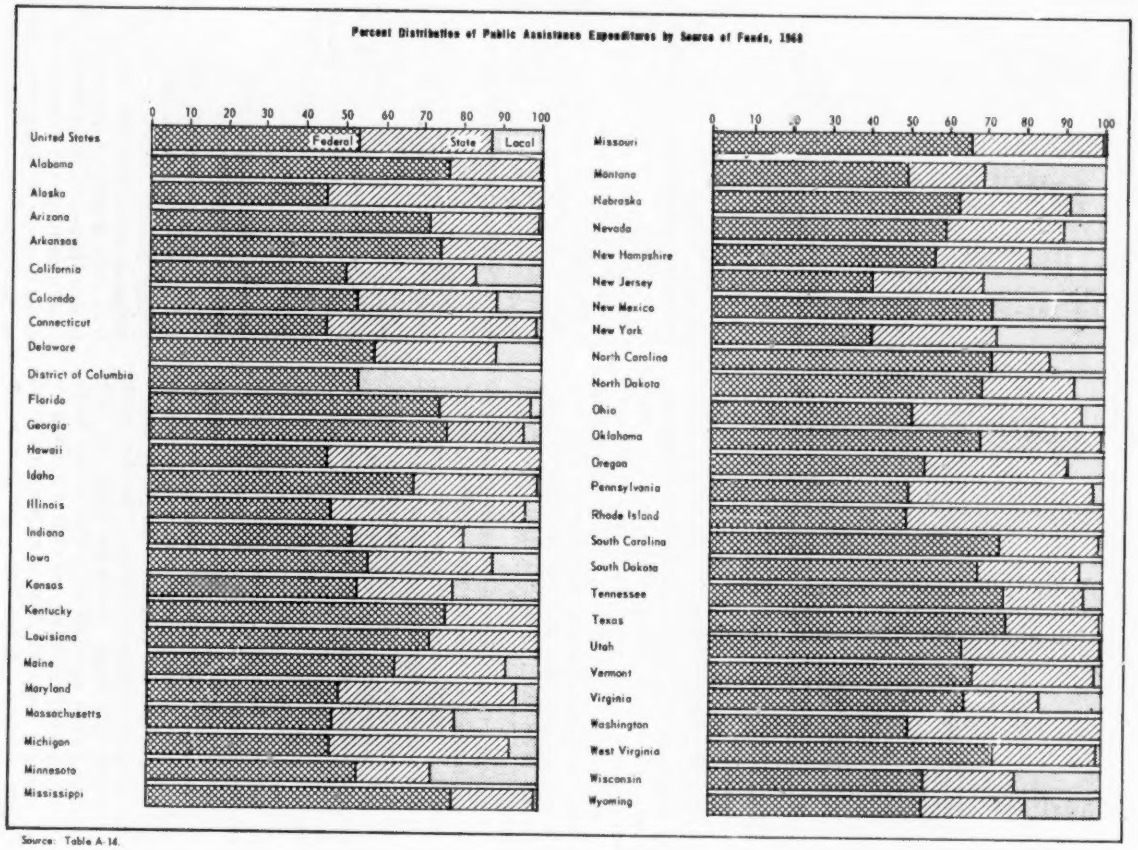
*Appendix tables appear at the end of each chapter.

FIGURE 11

MOST PUBLIC ASSISTANCE EXPENDITURE IS FINANCED FROM FEDERAL FUNDS

FIG 11



Source: Table A-14.

TABLE 19—INTERSTATE VARIATIONS IN AVERAGE MONTHLY PAY NT PER RECIPIENT FOR PUBLIC WELFARE PROGRAMS, DECEMBER 1968

Average Monthly Payment for an Individual Recipient	Old-Age Assistance	Aid to the Blind[2]	Aid to the Permanently and Totally Disabled[3]	Aid to Families with Dependent Children	General Assistance[4]
United States Average	$68.50	$92.15	$82.55	$42.00	$44.70
	Number of States[1]				
$ 0.00 to 9.99	—	—	—	1	2
10.00 to 19.99	—	—	—	4	10
20.00 to 29.99	—	—	—	9	9
30.00 to 39.99	1	—	—	18	7
40.00 to 49.99	6	1	2	15	6
50.00 to 59.99	11	3	6	3	4
60.00 to 69.99	16	6	13	3	2
70.00 to 79.99	9	13	10	—	2
80.00 to 89.99	3	14	8	—	—
90.00 to 99.00	2	4	4	—	—
100.00 to 109.00	2	2	3	—	—
110.00 to 119.00	1	6	3	—	—
120.00 to 129.00	—	—	1	—	—
130.00 to 139.00	—	—	1	—	—
140.00 to 149.00	—	1	—	—	—

[1] Includes District of Columbia.

[2] Column total of States excludes Wyoming where there were fewer than 50 recipients.

[3] Column total of States excludes Nevada.

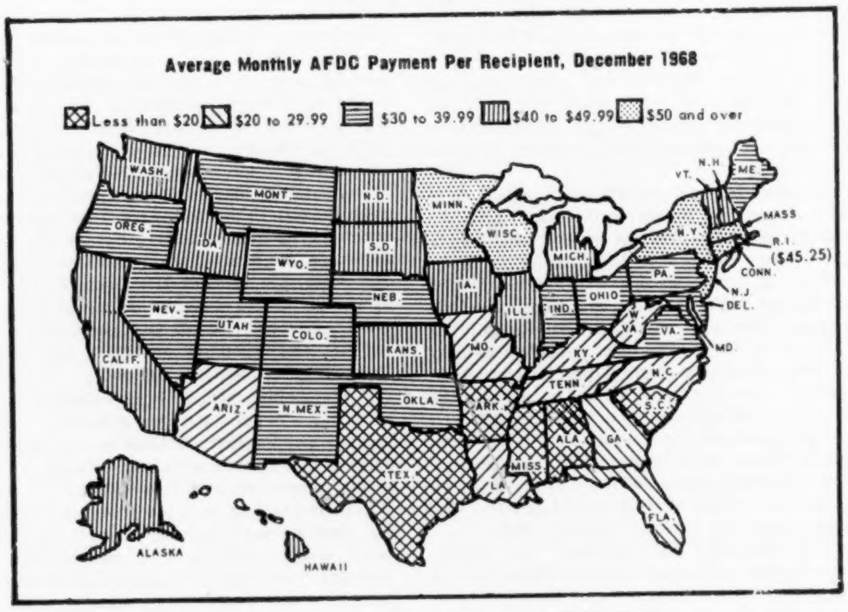
[4] Column total of States excludes States not operating such programs or where data was not available.

Source: U.S. Department of Health, Education and Welfare, *Social Security Bulletin*, April 1, 1969, Table M-24.

For each of these three public assistance programs then, the ratio of high to low benefit levels among the States was approximately 3 to 1.

Diverse as the above ratios are, there is an even greater variability for Aid to Families with Dependent Children and General Assistance. For the former the range extended from $8.50 per recipient in Mississippi to $67.45 in Connecticut—approximately 8 to 1—while the national average was $42.00 (figure 12). Average monthly benefits per recipient for General Assistance extended

FIGURE 12
THERE IS TREMENDOUS INTERSTATE VARIATION IN MONTHLY AFDC BENEFITS


Average Monthly AFDC Payment Per Recipient, December 1968
☒ Less than $20
▧ $20 to 29.99
▤ $30 to 39.99
▥ $40 to $49.99
▨ $50 and over
WASH.
MONT.
N.D.
MINN.
OREG.
IDA.
WYO.
S.D.
WISC.
MICH.
N.Y.
VT.
N.H.
ME.
MASS
R.I.
($45.25)
CONN.
N.J.
DEL.
MD.
PA.
OHIO
IND.
ILL.
IA.
NEB.
NEV.
UTAH
COLO.
KANS.
MO.
KY.
W.VA.
VA.
N.C.
S.C.
TENN.
CALIF.
ARIZ.
N.MEX.
OKLA.
ARK.
MISS.
ALA.
GA.
TEX.
LA.
FLA.
ALASKA
HAWAII

Source: *Social Security Bulletin*, April 1969, Table M-24.

from $4.10 in Arkansas to $78.25 in Washington, D.C.–no less than a 19 to 1 ratio, with a national average of $44.70.

Financing Public Assistance: The Intergovernmental Inequities

A sense of urgency surrounds the much debated "welfare crisis." There is general agreement that present arrangements for financing public assistance programs have resulted in severe inequities–both among governmental levels and among individuals. Much of the debate ultimately turns on the matter of money.

Many States and localities are confronting a loss of confidence as they are not able to provide the necessary services demanded by an increasingly militant group of "welfare activists." The growing "participation" by the poor in shaping welfare programs is especially apparent in urban States such as New York and California–States that find public welfare programs exerting rapidly increasing claims on State and local revenue (figure 13 and table A-16).

Central to the public assistance problem is the limited jurisdictional reach of State and local governments. This has led not only to a strain on State-local revenues, but to sharp differences in program levels both among and within States. Further exacerbating the public assistance dilemma, State and local governments cannot effectively control shifts in the national economy and the migration of the poor.

Locational pull and push. Under existing law the size of the welfare payment depends on expenditure decisions made by State and local officials. Since States pursue different policies regarding their public assistance programs, differences in service levels emerge, introducing the element of "locational pull" as recipients or potential recipients seek those areas offering the more attractive programs.

A recent study by the Citizens Budget Commission of New York found that Southern rural areas have succeeded in shifting the bulk of the nation's relief load to Northern urban areas, a shift estimated to encompass about 10 percent of the nation's relief roll since 1959.[2] Singling out the Aid to Families with Dependent Children program, this study noted that Puerto Rico and the nine States giving the smallest relief grants had cut their share of the total national caseload from 30.3 percent in 1959 to 19.2 percent in 1967. By way of contrast, the ten States with the highest level of payments saw their share of such caseloads rise from 21.2 to 30.1 percent. For the ten highest payment States, this increase averaged 148.7 percent between 1959 and 1967, compared to the national average of 74.9 percent and the 11.1 percent increase for the ten lowest payment States.

The study concluded that "the main force" causing people to migrate was a desire to better themselves and the "people don't come to New York City solely to go on welfare." Nonetheless differences in program benefits both among and within States introduce locational considerations–either to capture higher benefit levels or to avoid additional taxes required to finance such programs. Such locational factors then can distort the population redistribution pattern both of individuals and businesses and thereby promote uneconomic migration patterns. Recently, for example, the New York State Commission of Social Services upheld a New York City decision to deny welfare aid to a mother and nine of her twelve children on the ground that they left Mississippi with the sole aim of going on relief. Coming to New York, a woman with twelve children would receive an added $640 per month. For the more typical family of four, the same locational incentive applies. Such a family in Mississippi receives an average monthly payment of $35 but is eligible for $241 per month in New York–a $206 monthly differential that exceeds the $172 it would cost such a family to travel by bus from Jackson, Mississippi to New York City.[3]

The Advisory Council on Public Welfare summarized these program inequities as follows:

> Some 30 years of experience in leaving the implementation of public welfare programs largely to the fiscal ability and willingness of the State demonstrates that inequities among the States, between programs, and most important between groups of recipients, will persist if the Federal Government does not assume a stronger leadership role.[4]

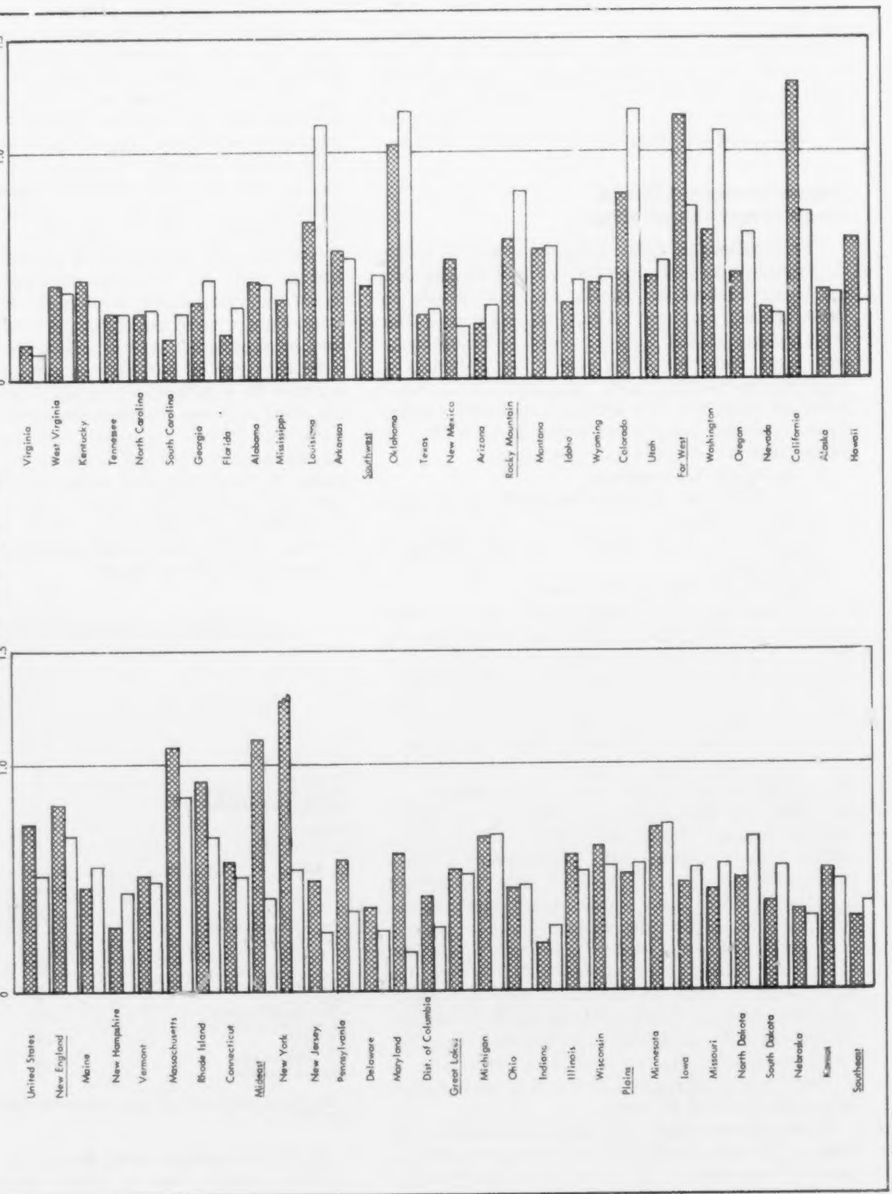
National origins and interest. To a considerable extent the desire to improve one's economic condition is a dominant consideration in the decision of many of the poor to move. This seems particularly true with regard to the rural-urban redistribution that has marked the American economy for many decades. By responding to the transformation of the economy, such migrants act in the national interest–leaving labor surplus areas and entering localities thought to have more remunerative job opportunities. In this regard then, the migrant not only promotes the national interest but actually responds to forces that are national in origin. Nonetheless, in a very real sense, the agricultural migrant–lacking industrial skills and training–becomes the social problem of the cities and urban States. As such, questions arise concerning the responsibilities of States and localities for financing public assistance services.

To summarize then, the limited financial and jurisdictional reach of State and local governments make these agencies inappropriate mechanisms to provide programs designed to redistribute income. Additional tax efforts at the subnational level have deleterious "feed back" effects on the local or State economy–as the middle- and upper-income classes and business see no additional public services resulting to themselves. Such reactions stimulate "tax-avoidance" thinking and therefore exacerbate State-local fiscal tensions where taxes are avoidable in a sense that a Federal tax is not. Nor can States and

FIGURE 13

PUBLIC WELFARE PROGRAMS EXERT GROWING FINANCIAL PRESSURE ON INDUSTRIAL STATES

State and Local Expenditures from Own Sources for Public Assistance as a Percent of State Personal Income, 1958 and 1968



Source: Table A-16

localities act solely with regard to the problems of the poor. Like the Federal government, they must balance competing demands for additional tax revenues; unlike the Federal government, however, they must consider the tax-expenditure mix of their neighbors as well. Moreover, to the extent that States and localities do provide redistributive services, they are financed in the main from tax sources that limit the redistributive effect—the very effect that such programs are designed to produce.

Program Imbalances: City and County Poverty Concentrations

The imbalance of public assistance recipients among local jurisdictions was measured in each of the large central cities—containing 250,000 or more people in 1960—and the counties in which they are located. For these jurisdictions the number of public assistance recipients as of February 1968 in each of four groupings of programs was calculated as a percentage of the respective Statewide total and then compared with the county-State population and income ratios, as of 1960. The public assistance programs considered were:

(1) All welfare recipients;

(2) Recipients of old-age assistance, aid to blind and aid to disabled;

(3) Recipients of aid to families with dependent children; and

(4) General assistance recipients.

In presenting such comparisons, it must be noted that, with the exception of eight large central cities, the data on public assistance recipients for the various programs are on a countywide basis and are therefore compared to county-State population and income ratios. Thus, it is not possible to isolate the public assistance ratios for all of the very large central cities. Nonetheless, many of the large cities encompass the vast majority of the counties in which they are located; obviously, in such cases, the city-county distinctions are not significant. For example, Boston contains 88.1 percent of the Suffolk County, Massachusetts population and, while public assistance data are available only for Suffolk County, the latter figures relate predominately to the city of Boston. At the other extreme, however, there is Long Beach, California, which contains only 5.7 percent of the Los Angeles County population. Clearly then, it is not possible to draw any conclusion about the public assistance ratios specifically for Long Beach. To indicate the degree that the large cities contain of their respective county populations, the city-county population ratio, as of 1960, was calculated and all the large central cities presented in terms of this ratio.

As comparisons relate 1960 population and income ratios to February 1968 public assistance proportions, a source of distortion is, of course, introduced since the population redistribution that has occurred since 1960 is not reflected in the population or income ratios that were used. Although the magnitude of the bias that results is not known, its direction generally can be presumed to *understate* the discrepancies. That is, the large central cities have—with some exceptions—either lost population or else have grown more slowly in recent years than the surrounding suburban communities. Moreover, large central cities have found their population composition altered—as the rich move out to the suburban areas and the poor move in. As a result, 1960 population and income ratios are probably higher for the large central cities and the counties in which they are located than the actual 1968 population and income ratios—the preferred figures for comparison with 1968 public assistance recipient and payment ratios.

Despite these reservations, a general picture of imbalance results for the largest cities and the counties in which they are located, particularly for non-Southern areas. Compared to population, a criterion frequently used to measure the need for public goods and services, more than half of the fifty counties—and some two-thirds of the non-Southern counties—had disproportionate ratios of public assistance recipients and payments (table 20). Equally important, these ratios reflect the varying imbalances accounted for by the individual programs. Although the aged, blind, and disabled impose particular problems for many counties—Southern and non-Southern—it is the aid to families with dependent children (AFDC) and general assistance programs that present the greatest imbalances.

TABLE 20—PERCENT OF THE COUNTIES CONTAINING 50 LARGEST CENTRAL CITIES WITH DISPROPORTIONATE PUBLIC ASSISTANCE PROGRAMS

Program (Feb. 1968)	Percent of 50 counties containing a larger relative share of welfare recipients or payments than of:	
	Population (1960)	Income (1960)
Total recipients	54	46
Total payments	54	44
Aged, blind and disabled recipients	26	22
Aged, blind and disabled payments	30	22
AFDC recipients	60	50
AFDC payments	70	58
General assistance recipients[1]	64	62
General assistance payments[1]	74	60

Program (Feb. 1968)	Percent of non-southern counties with largest central cities containing a larger relative share of welfare recipients or payments than of:	
	Population (1960)	Income (1960)
Total recipients	66	55
Total payments	68	55
Aged, blind and disabled recipients	34	28
Aged, blind and disabled payments	37	32
AFDC recipients	66	61
AFDC payments	74	66
General assistance recipients[1]	69	58
General assistance payments[1]	75	78

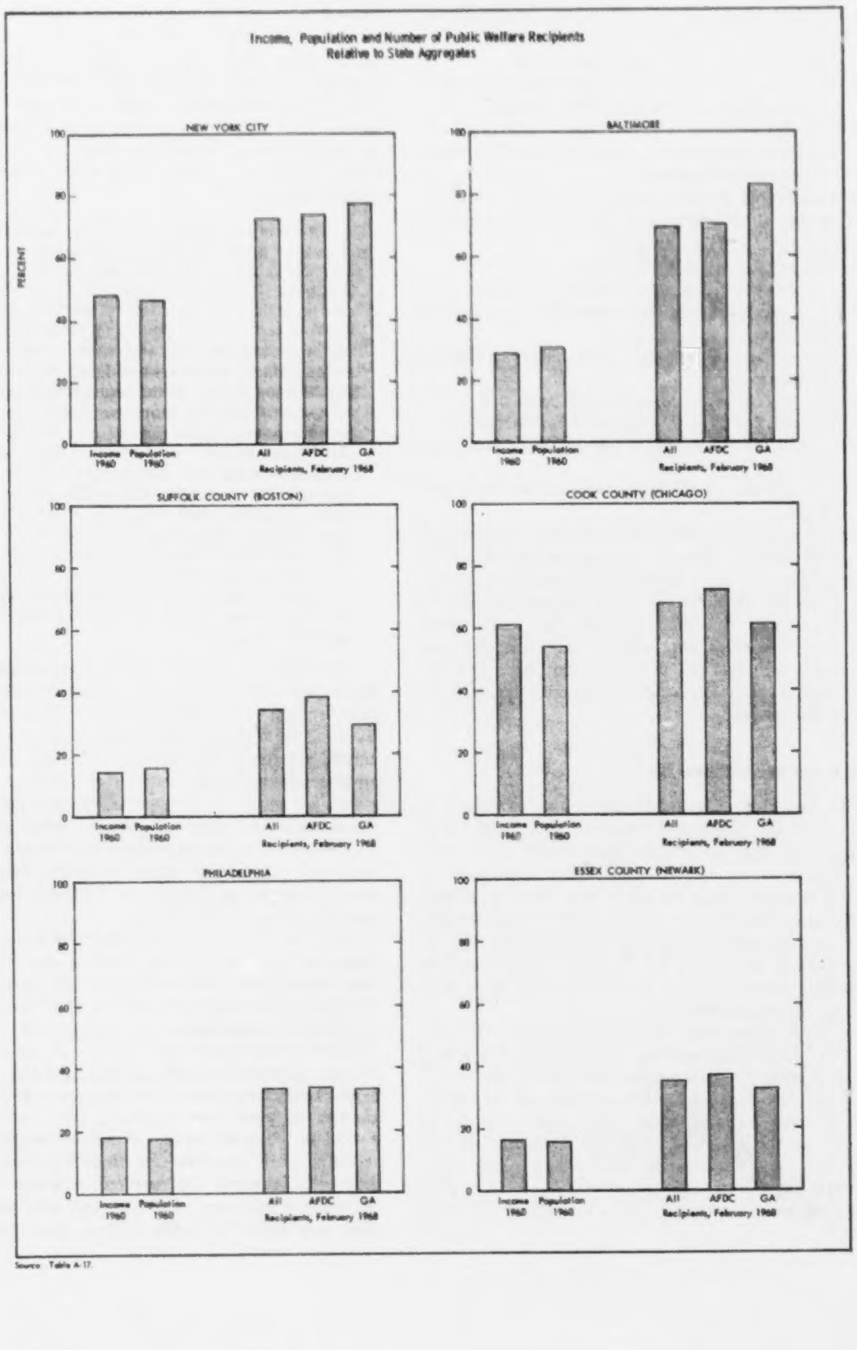
[1] Calculated for fewer than 50 counties as some did not have this program or because data were not available.

Source: Table A-17.

Significant variations exist for specific jurisdictions, revealing dramatic cases of "urban pathology" (figure 14). Baltimore City, with 30.3 percent of the Maryland population and 28.2 percent of the aggregate State income, nonetheless contains:

FIGURE 14

PUBLIC WELFARE CONTRIBUTES SIGNIFICANTLY TO "URBAN PATHOLOGY" – SOME EXTREME CASES



Source: Table A-17.

- Approximately 70 percent of the recipients and payments for public assistance programs in Maryland–2 1/3 times its population and income ratios.
- Approximately 60 percent of the recipients and payments for the aged, blind and disabled–twice the population and income proportions.
- Again 70 percent of the recipients and payments for aid to families with dependent children.
- Over 80 percent–or more than 2 2/3 times the population and income ratios–of general assistance recipients and payments.

A comparable picture emerges for New York City. With 46 percent of the State population and 48 percent of the income, New York City has:

- 72.5 percent of the State's welfare recipients;
- 75.2 percent of the State's welfare payments;
- 66.2 percent of the State's aged, blind and disabled recipients;
- 70.1 percent of the State's aged, blind and disabled payments;
- 73.4 percent of the State's AFDC recipients;
- 75.9 percent of the State's AFDC payments;
- 77.0 percent of the State's general assistance recipients;
- 77.0 percent of the State's general assistance payments.

The remaining counties containing the 50 largest central cities further illustrate the varying degrees of imbalance between public assistance programs and population or income (table A-17). These program imbalances serve to indicate the financial strain that public assistance programs place not only on the particular local jurisdiction–whether city or county–but, because of the State-local division of financial responsibilities, on State governments as well.

State-Local Tax Differentials

The existence of poverty concentrations means, in effect, that the States and localities must finance such programs by disproportionate fiscal efforts if comparable services are to be provided. These additional tax efforts, however, must be made not only by governmental units that–because of their limited jurisdictional reach–are unsuited to assuming responsibility for the redistribution of income but from tax bases composed of disproportionate shares of poor people, those with the least tax paying ability.

To some extent such tax differentials can affect the location of economic activity. There have been several studies relating to this topic and their general conclusion has been that because State-local taxes are so small a part of total business costs, their impact cannot be decisive in the ultimate locational decision.[5] In the main, however, these earlier studies have dealt with interstate tax differentials and several reservations must be added when intrastate locational decisions are in order.[6]

For one, there are bound to be instances where tax differentials are important to firms that are on the margin of profitability. Such firms or industries may indeed be "sick," in the economic sense, but it is just such firms that are most likely to employ the poverty-prone–those with low skills, lack of education, etc. Additional local taxes that cause such firms to relocate out of the metropolitan region or to shut down completely tend only to compound the welfare problem by placing additional people on public assistance. The Advisory Commission, in a previous study, summarized this issue as follows:

> The relative importance of the tax differential factor in industrial location decisions appears to increase as the location process narrows down to a particular jurisdiction within a given region. As among regions of the country, the non-tax factors such as access to markets and to labor and comparative transportation and supply costs stand out as the primary location considerations. As between neighboring States, there appears to be no direct relationship between industrial growth and tax differentials due largely to the fact that States are careful not to get "too far out of line" with their immediate neighbors. As among local governments within a State and especially within a metropolitan area, tax differentials exert discernible plant location pull–the industrial tax haven stands out as the most conspicuous example. In almost every metropolitan area there exist wide local property tax differentials–a cost consideration that can become a "swing" factor in the final selection of a particular plant location.[7]

In addition to tax differentials, there are undoubtedly other powerful forces–such as population redistribution–leading to the decentralization of economic activity away from the central city. In such cases, tax differentials reinforce the lure of suburbia while adding adverse effects to the central city economy. Moreover, higher city taxes are likely to be of much greater importance relative to other business costs when the choice of a location site is among alternatives within a single metropolitan community where other business costs are more homogenous than when different States or geographic regions are considered.

In a sense apart from the effects of actual tax differences on location decisions, there is the very real fear that further local and State taxes will adversely affect the economic competitive position of the jurisdiction by the possible consequences to existing businesses and individuals. While States and localities are passive reactors to the population redistribution question, they are surely keen competitors for new industry and job opportunities–in some cases restricting their tax bases for a period of years to induce favorable locations, thereby reducing their revenues for financing public services. When tax increases are required, however, States–but particularly localities–cannot simply take into account their own needs for public services; they must consider as well the further constraint on their actions imposed by the tax rates of neighboring communities. To disregard this latter element could very well have the effect of repelling—rather than attracting—new industry and thus may prove self-defeating.

Additional taxation at the subnational level can affect the locational decision of individuals as well as businesses; the reason again being that at the subnational level taxes are "avoidable" because of the relatively limited jurisdictional reach of States, and especially of localities. Nor is it possible to ignore the fact that in the post-World War II period, State and local officials frequently have been forced to adopt new taxes and to raise the rates on existing levies. Such tax actions, necessitated by the relatively sluggish response of State-local tax systems to economic growth and the continued increase in expenditures for vital public services, have hardened the opposition to additional tax increases and make further tax efforts all the more difficult.

State Intergovernmental Programs for Public Welfare, 1967

With relatively few exceptions, State (and Federal) money for the categorical assistance programs was channeled among localities in a fixed ratio to local expenditures in 1967—an approach that completely ignores variations in local fiscal capacity (table A-18). This was also the typical basis of support for the "other" public welfare programs—including local inspection of homes and agencies caring for the aged or children, child welfare services, public welfare administration, general relief, etc.—although a reimbursement basis for approved local expenditures was also used by many State governments for these latter programs.

The general State failure to compensate for variations in local fiscal capacity appears especially ominous. A community's financial ability is surely a relevant measure if it is to support an on-going public service. Moreover, there is the demonstrated tendency for the poor to cluster—making a minimal contribution to the jurisdiction's tax base and exerting maximal demands for public services. Yet in only seven States is the financial adequacy of the recipient locality given explicit consideration in the State government distribution formula—Illinois, Minnesota, Montana, New Jersey, North Carolina, West Virginia, Wyoming (table 21). Two general equalization approaches emerge from the practices of these States:

(1) Part of the State funds is distributed on an equalizing basis at the discretion of a State authority. This is done in North Carolina for old age assistance, aid to families with dependent children and aid to disabled.

(2) The State government picks up all or part of the welfare program costs beyond the amount yielded by a required local property tax rate.

Aside from the North Carolina provision, the equalization feature relates mainly to State aid for the general relief. Such equalization provisions, then, help to pinpoint State financial assistance to those localities where variations in local needs and resources are most striking.

TABLE 21—EQUALIZATION PROVISIONS OF STATE INTERGOVERNMENTAL PAYMENTS FOR PUBLIC WELFARE PROGRAMS, 1967

State	Program	Provision
Illinois	General Relief	Amount appropriated, distributed as reimbursement of local expenditure in excess of required local property tax levy.
Minnesota	Equalization of Welfare Costs	Amount appropriated, distributed to counties with assessed valuations below a specified level, which cannot raise sufficient amounts to meet their share of public welfare costs. Amount is distributed in fixed ratio to its expenditure for public welfare which is in excess of the amount that would be raised by a specified tax levy.
Montana	General Relief	Amount appropriated, distributed on basis of need, to supplement amounts available from local sources in financing requirements for local share of public assistance and other public welfare expenditure.
New Jersey	General Relief	Amount appropriated, distributud in fixed ratio to local expenditure, the appropriate ratio depending on the mill rate of property taxes that would be required to yield amount equal to local expenditure requirements for general relief.
North Carolina	Old-Age Assistance Aid to Families with Dependent Children Aid to Disabled	State and Federal funds distributed in fixed ratio to local expenditure except that part of State funds that is distributed on an equalization basis at the discretion of the State Board of Public Welfare.
West Virginia	General Relief	Amount appropriated, distributed to supplement proceeds of specified county property tax levy in financing approved local expenditure for general relief.
Wyoming	General Relief and County Administration	Amount appropriated, distributed as reimbursement of approved expenditure in excess of amounts available for general relief and county welfare administration from proceeds of required local property tax levy for public welfare.

Source: U.S. Bureau of the Census, *State Payments to Local Governments*, 1967 Census of Governments, Vol. 6, No. 4 (U.S. Government Printing Office, Washington, D.C., 1968).

State-Local Administration

Because of their highly "people-related" nature, the Commission is convinced that public assistance programs should continue to be administered by State and local officials—those closest to the people and their problems. At present, there are two broad approaches to the administration of these programs—State administration and State supervision of locally administered programs.

In 1968 State administration was the practice in 29 State governments, the District of Columbia, Puerto Rico and the Virgin Islands, while 21 States supervised programs administered by local officials. Although there are exceptions to the rule, the general pattern appears to be that lesser local financial participation results where welfare programs are administered by the State (table 22). Indeed, of the thirty-three programs that are State-administered, including the District of Columbia, Guam, Puerto Rico and the Virgin Islands, 23 have no financial participation by local governments at all.

To some extent, however, the distinction between State-administration and State-supervision is more fluid than the above dichotomy suggests. As the Joint Legislative Committee to Revise the Social Welfare Law of New York notes, "In actual practice, a state-administered program with a philosophy of strong local involvement can

TABLE 22–STATE ADMINISTRATIVE PRACTICES AND LOCAL FINANCIAL PARTICIPATION IN PUBLIC WELFARE PROGRAMS, JUNE 30, 1968

State	Percent local finance	State	Percent local finance
State Administrative Approach		Utah	.0
		Vermont	7.0
Alaska	.0	Washington	.0
Arizona	.0	West Virginia	.0
Arkansas	.0	State Supervision Approach	
Connecticut	.0		
Delaware	9.1	Alabama	(²)
Florida	.0	California	14.0
Hawaii	.0	Colorado	7.0
Idaho	0.8	Georgia	3.4
Illinois	.0	Indiana	15.7
Kentucky	.0	Iowa	10.2
Louisiana	.0	Kansas	22.8
Maine	3.6	Maryland	6.2
Massachusetts[1]	18.0	Minnesota	19.4
Michigan	1.5	Montana	12.3
Mississippi	.0	Nebraska	10.5
Missouri	.0	New Jersey	24.0
Nevada	5.7	New York	26.7
New Hampshire	18.0	North Carolina	12.7
New Mexico	.0	North Dakota	4.7
Oklahoma	.0	Ohio	2.5
Pennsylvania	3.2	Oregon	13.0
Rhode Island	.0	South Carolina	.0
South Dakota	.0	Virginia	9.9
Tennessee	4.6	Wisconsin	17.9
Texas	.0	Wyoming	24.4

[1] Under legislation enacted in 1967, all programs in Massachusetts became State-administered as of July 1, 1968.

[2] Less than 0.05 percent.

Source: Report of the Joint Legislative Committee to Revise the Social Welfare Law of New York State, Legislative Documents (1968), Number 8, p. 128.

develop administrative procedures to effect substantial local participation in policy determination and flexibility in operations. Contrariwise, in a locally administered program State supervision can be so strong as to approach State administration."[8] Regardless of the administrative set-up, however, it is the State agency that remains responsible for the development and administration of the State plan. These two approaches nonetheless involve differences regarding several issues related to the "delivery" of public assistance services. At the heart of the debate between State *versus* local administration is the conflict between uniformity over large geographic areas and local experimentation and participation in the provision of this public service.

Among the major arguments advanced for State-administration, listed with no particular priorities, are the following:

(1) Consistency in philosophy and goals are more readily attained throughout the State.

(2) Uniformity of administration and standards as well as in the application of laws, policies, and procedures is more likely to result.

(3) Responsibility is fixed and visible in State administration.

(4) Enforcement of standards is promoted.

(5) Long-range planning, both statewide and in relation to specific local areas, is facilitated.

(6) There is ability to implement change generally and informally.

(7) Better distribution of work load and hence greater productivity result from State administration.

(8) Career potentials are enhanced under State administration which can provide promotional opportunity, transferability, standardized salaries, and effective training programs.

(9) Program control is facilitated.

(10) Simplification of paper work is more likely.

(11) A general upgrading and greater uniformity in all services and in professional standards should result.

(12) Better coordination with other State-administered programs can be achieved.

Various arguments, however, are also presented in favor of local administration of public welfare programs. Included among these are the following:

(1) Public welfare services should involve direct local participation which is best promoted by local administration.

(2) Community planning is facilitated.

(3) Interagency cooperation and coordination at the community level are easier to attain.

(4) Local people have a better understanding of the needs for local services.

(5) There is more likelihood of experimentation and demonstration.

The above arguments specify the hard choice between State-administration and State-supervision of locally administered public welfare programs.[9] If "like treatment of like individuals" can be accepted as a criterion for judging the alternatives, then the arguments favoring State-administration—with its broader jurisdictional reach—would appear the most persuasive. Nor are experimentation, demonstration projects and comprehensive studies of local needs incompatible with State-administered welfare programs. On the other hand, some hold that if "local self government" is to be a continued virtue of the federal system, then local administrative participation must be retained.

FINANCING PUBLIC HEALTH AND HOSPITAL PROGRAMS–THE EQUALIZING ROLE OF THE STATE

Vast changes have marked the delivery of public health and hospital services over recent decades. Due in part to the economic growth and prosperity of the country as well as the process of technological advance, the content of such services has shifted radically—away from the communicable and infectious diseases, once the predominant causes of death, toward the chronic diseases and degenerative disorders. Thus while there has been an overall decline in mortality rates, there has also been a shift in emphasis from diseases of the young to the health requirements of the elderly. Such changes are not simply a product of the past; they are part of the growth and development of the country and as such will undoubtedly characterize the future.

Acting as a partial offset to the favorable effects of growth and technology, however, has been the continued process of urbanization. This factor, projected to intensify, has heightened awareness and concern over the problems referred to as environmental health. Indeed this field, with its roots in the massing of population in limited areas, seems destined to be of increasing

TABLE 23–NATIONAL HEALTH EXPENDITURES BY SOURCE OF FUNDS, 1960 TO 1967

Year	Expenditure (in millions of dollars)					Percent distribution			
	Total	Private	Public			Private	Public	Distribution of Public	
			Total	Federal	State and Local			Federal	State and Local
1967	50,655	32,833	17,822	11,924	5,898	65	35	66	34
1966	45,006	32,350	12,657	7,051	5,606	72	28	56	44
1965	40,691	30,617	10,075	4,956	5,119	75	25	49	51
1964	37,549	28,283	9,266	4,563	4,704	75	25	49	51
1963	33,629	25,071	8,558	4,206	4,352	75	25	49	51
1962	31,404	23,480	7,924	3,854	4,069	75	25	49	51
1961	28,887	21,611	7,278	3,418	3,860	75	25	47	53
1960	26,973	20,336	6,637	3,012	3,624	75	25	45	55

Source: Dorothy P. Rice and Barbara S. Cooper, "National Health Expenditures, 1950-1966", *Social Security Bulletin*, January 1968, pp. 3-20.

importance–encompassing as it does water and air pollution, the effects of noise on human development and, related in part, the entire area of mental health.

Changes in the types of disease and their more complex and capital-intensive treatment have led to new institutional arrangements and approaches for the provision of public health facilities. Indicative of this is the growth of regional medical complexes designed to bridge the gap between research and general medical care. Such agencies provide assistance to hospitals and health agencies, among others, for the planning and operating of research, training and demonstration programs relating to heart disease, cancer, stroke, etc. Similarly, the comprehensive neighborhood health program attempts to bring a broad scope of health services within the range of the poor. This program includes, but is not limited to, preventive, diagnostic, treatment, rehabilitation, mental health, dental and follow-up services.

Problems of environmental health underscore the need for an approach wider in geographic scope than the locality. Air and water pollution, noise abatement, etc., cannot be handled effectively by governments with limited jurisdictional reach. Extending over broader geographic areas, inter-community efforts are required.

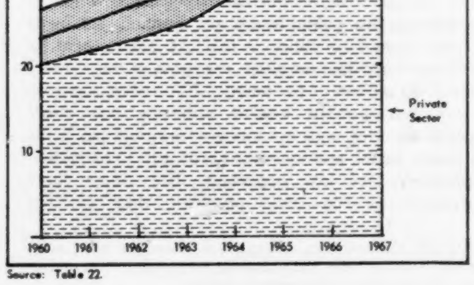
Current Financial Magnitudes and Trends

The provision of health and hospital facilities is a responsibility shared not only among the three governmental levels but with the private sector as well. During 1967, the nation spent $50.7 billion for health and medical care, the equivalent of 6.4 percent of the total output of goods and services (GNP). By far the dominant source of finan. . was the private sector, accounting for $32.8 billion or 65 percent of the total (figure 15 and table 23). Of the $17.8 billion that was financed by the public sector in 1967, $11.8 billion, or 66 percent, came from the Federal Government (virtually all direct payments for medical and hospital services and facilities and for medical research and training), and the remaining 34 percent came from States and localities.

This 1967 pattern of financing health and medical care services and facilities represents both a new departure as well as an acceleration of a trend that has prevailed during the 1960's. The 1967 composition of private-public expenditures (65 percent to 35 percent) entails a major change from the roughly 3 to 1 ratio that characterized each of the years 1960-1966. This relative expansion in public sources of financing was due in good measure to the implementation of the Medicare program of health insurance for the aged (effective July 1, 1966), and the expansion of other Federal programs. For these reasons, not only has the Federal contribution grown faster than the private sector but it has outstripped the

FIGURE 15

THE PUBLIC SECTOR IS FAST MOVING INTO THE HEALTH FIELD



Source: Table 22.

State-local sector as well. While the Federal source of public funds has increased throughout the 1960's, the expansion in dollar amounts between 1966 and 1967 alone was greater than that for the six-year period 1960-1966. Although 1966 marked the first year in which the Federal component dominated the public financing of health and medical care, the Federal share jumped to nearly two-thirds of the public funds in 1967.

In addition to the public-private financial shifts, there have been significant departures within the private component as third party payments have risen and consumer out-of-pocket expenditures declined in relative importance. Encompassing mainly public health insurance benefit payments and governmental expenditures (including those for the Medicare program of health insurance for the aged), such third party payments have advanced from $3.9 billion or 35.1 percent of personal health care expenditures in 1950 to $24.6 billion or 56.0 percent in 1967.

State-Local Expenditures for Health and Hospitals, 1967*

State and local governments spent a total of $6.6 billion for their public health and hospital programs in 1967, the equivalent of $33.58 per capita (table A-19). Of this amount, about 5 percent came from the Federal Government, nearly half from the State governments and about 45 percent from localities (figure 16). While this represents the governmental sources of financing of the nation as a whole, there are substantial differences among the individual States. There is also a marked diversity in per capita spending for public health and hospital programs among the States. Compared to the U.S. average of $33.58 per capita, the District of Columbia spent nearly 2½ times that amount–$81.83 per capita–while South Dakota spent less than half, $14.82 per capita.

For State governments such expenditures are relatively minor components of their total budgets. During 1967, State expenditures for public hospitals amounted to $3.0 billion while an additional $686 million was spent on public health. This represented 5.6 percent and 1.3 percent respectively of total State general expenditure.

By far the largest portion of State government expenditures for public health and hospitals are made directly. Some $2.9 billion of the $3.0 billion spent by the States for public hospitals was spent in this manner while $500 million of the nearly $700 million spent by States for public health programs was direct expenditure. Not only are intergovernmental payments for public health and hospitals ($185 and $115 million respectively) far less important than direct State expenditures for these purposes, they together represented but 1.6 percent of total State intergovernmental payments in 1967–a continuation of their generally declining importance from the 2.5 percent figure registered in 1952.

State Intergovernmental Programs for Public Hospitals, 1967

State governments differ not only in the State-local division of financial responsibility but also in regard to the particular hospital programs that are State supported and the bases used to allocate State funds among localities. During 1967, eight State governments–Alaska, Connecticut, Delaware, Maine, New Hampshire, North Dakota, Rhode Island and Vermont–did not make any local payments at all. For the 42 State governments that did, these payments covered a variety of programs:

(1) Hospital construction–41 States channeled either Federal or Federal and State aid for this purpose;
(2) Tubercular institutions or patients–supported by 14 State governments;
(3) Hospital care for indigents–supported by 4 State governments;
(4) Other hospital programs–supported by 3 State governments;
(5) Hospital care for mental patients–supported by 3 State governments;
(6) Hospital care for crippled children–supported by 2 State governments, and
(7) Cancer control–supported by 1 State government.

These items represent only the intergovernmental programs supported by State aid. Because they exclude direct State expenditures (data for which are not available on a program basis) they are not intended to measure the total State response in a particular area.

This diversity in programs is matched by an equally diverse set of formulas for the distribution of State support. The one clear finding to emerge, however, regarding State aid for such programs is that–with the exception of one program in one State (tuberculosis hospitals in Washington–"needs" factors (e.g., caseload) are the basis for the State distribution. Aside from the hospital construction program, which is partly supported by Federal funds and allocated in fixed proportion to local expenditures for approved projects, the most frequently used method is to provide State aid at a specified rate per patient per day or some other time period (table A-20).

State Intergovernmental Programs for Public Health, 1967

As in the public hospital area, there is a wide diversity in the degree to which States use intergovernmental mechanisms for the financial support of public health services. During 1967, 12 States–Alaska, Arkansas, Delaware, Hawaii, Idaho, Maine, Mississippi, Montana, New Mexico, Oklahoma, Tennessee, and Vermont–did not

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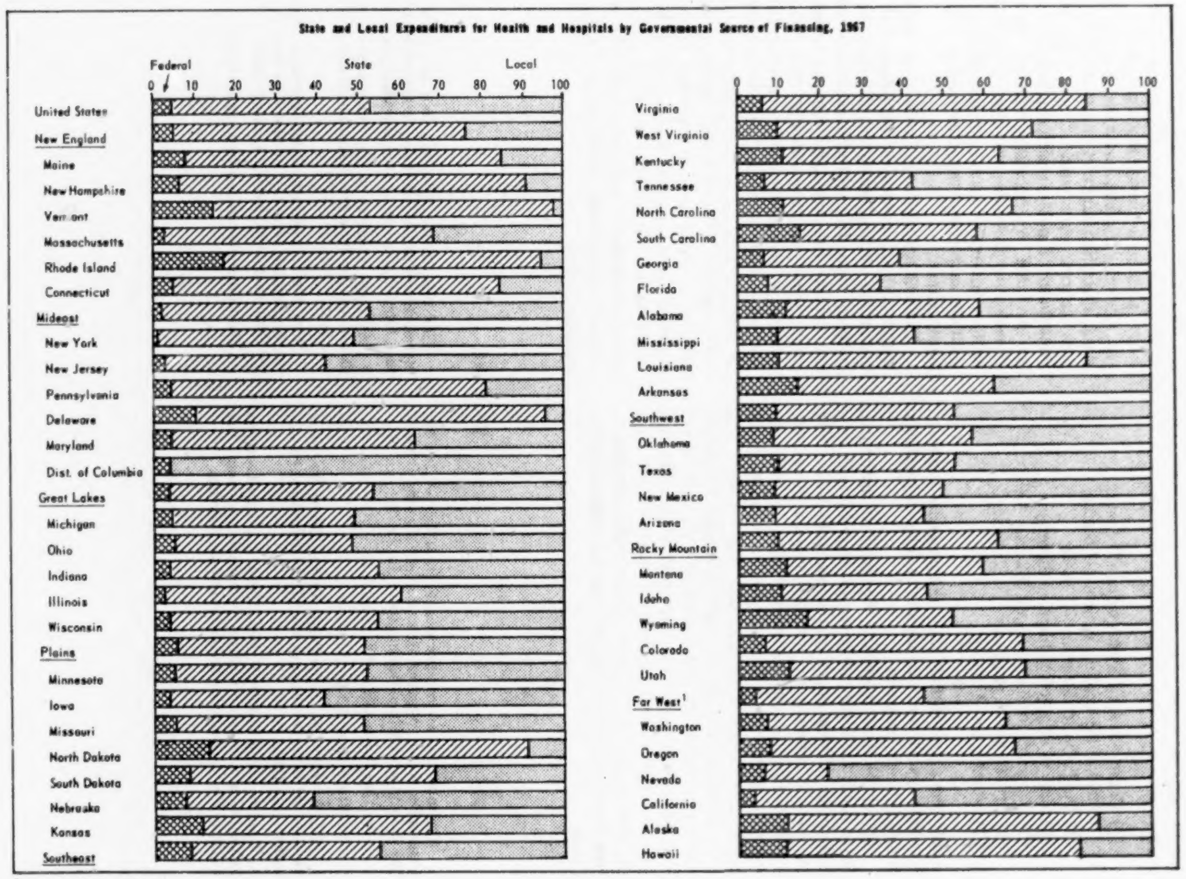
*In this and following sections, U.S. Bureau of the Census financial data are used. These amounts are not directly comparable to the data used in the previous section.

FIGURE 16

STATES AND LOCALITIES FINANCE THE BULK OF THEIR HEALTH AND HOSPITAL EXPENDITURES



[1] Excluding Alaska and Hawaii
Source: Table A-19.

make any intergovernmental payments at all but provided health services on a direct basis. The remaining States made payments to localities for the following purposes:

(1) County or local health work—27 States;
(2) Care of tuberculosis patients—2 States;
(3) Public health assistance—1 State;
(4) Care of crippled children—3 States;
(5) Programs for handicapped children—1 State;
(6) Mental health programs—14 States, and
(7) Nursing aid—4 States.

Again, the above include only the programs supported by State grants, and exclude direct State expenditures for comparable purposes.

By far the most frequently used basis for distributing State funds for these public health programs is in fixed proportion of local expenditures (see table A-21). Other methods in common use are: for the State Department of Public Health to make the distribution; for State payments to simply reimburse localities for approved health services; or to specify a particular rate for some time period. As in the field of public hospitals, the factors used to determine the distribution of State payments to localities almost exclusively represent "needs". The only programs where fiscal equalization plays any role is for the State support of county or local health programs in New Jersey and for the care of crippled children in California.

Conclusion and Policy Implications

The above summary and examination reveals that—with but few exceptions—the goal of fiscal equalization is not pursued in current State intergovernmental aid for the support of public health and hospital programs. Indeed, there is virtually exclusive reliance upon distribution factors representing "needs" for such services. Nonetheless, if public health and hospital facilities are to be provided by localities—whether rich or poor—equalization provisions will have to be implemented to avoid a disproportionate local tax effort by poorer jurisdictions; such provisions to be used in conjunction with needs criteria.

The findings also support the view that State governments deal with poverty-related programs in the fields of education, welfare, health and hospitals on a program by program basis. This approach, even where effective, does not capture the essentially common element that pervades these programs—namely their relationship to poverty. Some States provide one service directly while using an intergovernmental device for another, making an overall evaluation of their poverty-related efforts the more difficult. In view of the numerous and divergent allocation criteria used to apportion State programs in poverty-related services, States should exploit every opportunity for combining separately administered programs—particularly in the poverty-related services—with a view to considerable consolidation of narrowly defined program grants.

Footnotes

[1] The subject of the negative income tax is fully explored by Christopher Green, *Negative Taxes and the Poverty Problem*, The Brookings Institution (Washington, D.C.: 1967).

[2] *New York Times*, October 4, 1968, p. 28.

[3] *Wall Street Journal*, October 14, p. 8.

[4] U.S. Advisory Council on Public Welfare, *Having the Power, We Have the Duty*, (Washington, D.C., U.S. Government Printing Office: June 1966), p. 10.

[5] See, for example, John F. Due, "Studies of State-Local Tax Influences on Location of Industry," *National Tax Journal*, Vol. 14 (June 1961) for a review and sources of the literature.

[6] See Dick Netzer, "Federal, State and Local Finance in a Metropolitan Context," in Harvey S. Perloff and Lowdon Wingo, Inc., Johns Hopkins Press, 1968, especially pages 444-445.

[7] Advisory Commission on Intergovernmental Relations, *State-Local Taxation and Industrial Location*, A-30, (Washington: April, 1967), pp. 78-79.

[8] New York, Legislature, Joint Legislative Committee to Revise the Social Welfare Law of New York State, *Report*, Legislative Documents (1969), No. 9, (Albany: 1968), p. 129.

[9] For further discussion see *Ibid.*, pp. 107-114.

TABLE A-14—PUBLIC ASSISTANCE EXPENDITURES, BY SOURCE OF FUNDS, AND MONTHLY PAYMENTS TO OLD AGE RECIPIENTS AND TO FAMILIES WITH DEPENDENT CHILDREN, 1968

(Dollar amounts in thousands, except monthly payments)

State	Expenditures (fiscal year)							Average monthly payments (June)	
	Total	Federal funds		State funds		Local funds		Old-age assistance	Aid to dependent children (per family)
		Amount	Percent	Amount	Percent	Amount	Percent		
United States	$9,881,060	$5,244,532	53.1	$3,295,870	33.4	$1,340,658	13.6	$68	$170
Alabama	134,008	101,905	76.0	31,944	23.8	160	.1	59	64
Alaska	7,482	3,360	44.9	4,132	55.1	—	—	80	135
Arizona	35,026	25,189	71.9	9,768	27.9	68	.2	51	122
Arkansas	90,072	67,200	74.6	22,872	25.4	—	—	55	79
California	1,843,948	921,416	50.0	610,458	33.1	312,074	16.9	100	178
Colorado	106,589	56,679	53.2	37,703	35.4	12,206	11.5	78	151
Connecticut	120,946	54,958	45.4	65,127	53.8	860	.7	72	201
Delaware	15,585	9,013	57.8	4,808	30.8	1,765	11.3	63	132
Dist. of Columbia	29,992	16,112	53.7	13,880	46.3	—	—	75	178
Florida	129,632	96,995	74.8	29,705	22.9	2,932	2.3	47	60
Georgia	161,013	123,211	76.5	31,462	19.5	6,340	3.9	52	98
Hawaii	27,993	12,786	45.7	15,207	54.3	—	—	82	184
Idaho	19,830	13,539	68.2	6,295	31.7	16	.1	64	177
Illinois	464,638	218,090	47.2	229,428	49.4	16,121	3.5	60	200
Indiana	71,187	37,232	52.3	20,321	28.5	13,635	19.2	47	138
Iowa	96,668	54,358	56.5	30,327	31.7	10,883	11.4	101	191
Kansas	83,266	44,808	53.8	20,350	24.4	18,108	21.7	88	182
Kentucky	138,339	105,423	76.2	32,916	23.8	—	—	64	111
Louisiana	226,039	163,921	72.5	62,118	27.5	—	—	70	104
Maine	33,324	21,308	63.9	9,367	28.1	2,648	7.9	54	110
Maryland	151,862	74,830	49.4	68,237	45.0	8,495	5.6	80	155
Massachusetts	394,465	187,433	47.5	122,776	31.1	84,256	21.4	80	208
Michigan	373,330	175,243	46.9	170,789	45.7	27,298	7.3	67	184
Minnesota	172,470	92,920	53.9	32,164	18.6	47,386	27.5	83	198
Mississippi	68,749	54,051	78.6	14,166	20.6	532	.8	36	35
Missouri	182,588	120,482	66.0	61,675	33.9	251	.1	68	102
Montana	21,901	10,906	49.8	4,238	19.3	6,758	30.9	64	138
Nebraska	43,850	27,629	62.8	12,352	28.2	3,970	9.1	57	148
Nevada	12,398	7,331	59.1	3,768	30.4	1,299	10.5	75	117
New Hampshire	14,354	8,144	56.7	3,420	23.8	2,791	19.4	108	178
New Jersey	210,657	85,042	40.4	60,176	28.6	65,439	31.1	73	231
New Mexico	44,694	31,856	71.3	12,838	28.7	—	—	64	125
New York	2,053,580	829,734	40.4	650,811	31.7	573,035	27.9	83	282
North Carolina	118,671	84,245	71.0	17,379	14.6	17,047	14.4	66	106
North Dakota	24,817	17,098	68.8	5,837	23.6	1,882	7.6	76	169
Ohio	310,523	158,136	50.9	136,254	43.9	16,134	5.2	81	153
Oklahoma	215,822	148,299	68.7	67,229	31.2	295	.1	72	133
Oregon	61,102	33,274	54.5	22,169	36.3	5,659	9.3	58	152
Pennsylvania	430,956	215,142	49.9	204,437	47.4	11,376	2.6	71	183
Rhode Island	56,660	28,190	49.8	28,450	50.2	—	—	59	186
South Carolina	38,510	28,423	73.8	9,789	25.4	298	.7	46	72
South Dakota	21,425	14,545	67.9	5,608	26.2	1,267	5.9	62	166
Tennessee	103,176	77,248	74.9	20,949	20.3	4,980	4.8	48	105
Texas	342,403	258,087	75.4	81,438	23.8	2,968	.9	60	96
Utah	33,431	21,558	64.5	11,853	35.5	20	.1	54	160
Vermont	18,510	12,417	67.1	5,790	31.3	304	1.6	68	174
Virginia	55,293	35,804	64.8	10,592	19.2	8,897	16.1	56	128
Washington	145,312	74,045	51.0	71,268	49.0	—	—	62	174
West Virginia	62,161	45,167	72.7	16,100	25.9	895	1.4	62	115
Wisconsin	186,299	101,827	54.7	42,847	23.0	41,625	22.3	62	198
Wyoming	7,872	4,258	54.1	2,110	26.8	1,504	19.1	78	142
Other areas[1]	68,733	32,682	47.5	29,865	43.5	6,186	9.0	21	89

[1] Includes Guam, Virgin Islands, and Puerto Rico.

Note: Expenditures include vendor payments for medical care made under all public assistance programs and expenditures for administration, services, and training. Average monthly payments exclude vendor payments for medical care and cases receiving only such payments.

TABLE A-15—MEDICAL ASSISTANCE: VENDOR PAYMENTS FOR MEDICAL CARE IN BEHALF OF RECIPIENTS BY SOURCE OF FUNDS, FISCAL YEAR ENDED JUNE 30, 1968[1]

(Amounts in thousands)

State	Month and year State began operation	Total vendor payments for medical care	Federal funds		State funds		Local funds	
			Amount	Percent	Amount	Percent	Amount	Percent
Total	—	$3,285,818	$1,611,644	49.0	$1,180,625	35.9	$493,449	15.1
California	March 1966	629,417	314,708	50.0	214,116	34.0	100,592	16.0
Connecticut	July 1966	47,661	23,826	50.0	23,834	50.0	—	—
Delaware	Oct. 1966	3,300	2,013	61.0	1,287	39.0	—	—
Georgia	Oct. 1967	28,698	23,376	81.5	5,322	18.5	—	—
Guam	Nov. 1967	82	41	50.0	41	50.0	—	—
Hawaii	Jan. 1966	9,798	4,486	45.8[2]	5,312	54.2	—	—
Idaho	July 1966	6,412	4,521	70.5	1,891	29.5	—	—
Illinois	Jan. 1966	148,601	74,170	49.9	74,431	50.1	—	—
Iowa	July 1967	21,610	12,879	59.6	8,730	40.4	—	—
Kansas	July 1967	25,856	13,616	52.7[2]	6,397	24.7	5,843	22.6
Kentucky	July 1966	35,823	28,976	80.9	6,847	19.1	—	—
Louisiana	July 1966	42,080	32,035	76.1	10,045	23.9	—	—
Maine	July 1966	11,282	7,828	69.4	3,454	30.6	—	—
Maryland	July 1966	64,088	26,693	41.7[2]	34,635	54.0	2,760	4.3
Massachusetts	Sept. 1966	192,888	96,336	49.9	64,717	33.6	31,836	16.5
Michigan	Oct. 1966	155,283	77,647	50.0	77,637	50.0	—	—
Minnesota	Jan. 1966	81,180	47,408	58.4	16,948	20.9	16,822	20.7
Missouri	Oct. 1967	19,830	12,857	65.0[2]	6,974	35.0	—	—
Montana	July 1967	5,796	3,710	64.0	1,122	19.4	964	16.6
Nebraska	July 1966	20,141	12,310	61.1	3,924	19.5	3,907	19.4
Nevada	July 1967	5,553	2,776	50.0	1,479	26.6	1,298	23.4
New Hampshire	July 1967	3,148	1,893	60.1	903	28.7	353	11.2
New Mexico	Dec. 1966	13,343	9,360	70.1	3,983	29.9	—	—
New York	May 1966	1,006,475	378,261	37.6[2]	340,479	33.8	287,734	28.6
North Dakota	Jan. 1966	10,346	7,309	70.6	2,606	25.2	431	4.2
Ohio	July 1966	72,762	38,442	52.8	34,320	47.2	—	—
Oklahoma	Jan. 1966	66,078	45,997	69.6	20,081	30.4	—	—
Oregon	July 1967	16,586	9,018	54.4	6,524	39.3	1,044	6.3
Pennsylvania	Jan. 1966	153,125	70,997	46.3[2]	71,272	46.5	10,856	7.2
Puerto Rico	Jan. 1966	39,411	18,793[3]	47.7	14,433	36.6	6,185	15.7
Rhode Island	July 1966	24,801	12,978	52.3	11,824	47.7	—	—
South Dakota	July 1967	6,602	4,838	73.3	1,764	26.7	—	—
Texas	Sept. 1967	100,110	79,868	79.8	20,242	20.2	—	—
Utah	July 1966	9,749	6,336	65.0	3,414	35.0	—	—
Vermont	July 1966	7,562	5,218	69.0	2,276	30.1	69	.9
Virgin Islands[4]	July 1966	900	450	50.0	450	50.0	—	—
Washington	July 1966	51,444	26,009	50.6[2]	25,435	49.4	—	—
West Virginia	July 1966	11,650	8,053	69.1[2]	3,597	30.9	—	—
Wisconsin	July 1966	114,899	64,934	56.5	27,387	23.8	22,578	19.7
Wyoming	July 1967	1,147	679	59.2	412	35.9	56	4.9

Source: Department of Health, Education, and Welfare, Social and Rehabilitation Service.

[1] Program initiated January 1966 under Public Law 89-97. States not shown had no program as of June 30, 1968.
[2] Percentage is less than the Federal medical assistance percentage because some payments to medical vendors are not subject to Federal financial participation.
[3] Amount less than that obtained by applying formula for computing Federal funds because of the statutory limitation on the aggregate amount of Federal funds that can be made available for a fiscal year.
[4] Partly estimated.

Source: HEW, *Source of Funds Expended for Public Assistance Payments*, Fiscal Year Ended June 30, 1968 (NCSS Report F-1 (FY 68)).

TABLE A-16—STATE AND LOCAL EXPENDITURE FOR PUBLIC ASSISTANCE FROM OWN REVENUE SOURCES AS A PERCENT OF STATE PERSONAL INCOME, 1958 AND 1968

State and Region	1968	1958	Percent increase or decrease (–)
United States	0.74	0.52	42.3
New England	.82	.68	20.6
* Maine	.46	.55	–16.4
* New Hampshire	.29	.44	–34.1
* Vermont	.51	.48	6.3
* Massachusetts	1.08	.86	25.6
* Rhode Island	.93	.68	36.8
* Connecticut	.57	.50	14.0
Mideast	1.11	.41	170.7
* New York	1.78	.54	229.6
New Jersey	.49	.26	88.5
* Pennsylvania	.58	.35	65.7
* Delaware	.37	.27	37.0
* Maryland	.61	.17	258.8
Dist. of Columbia	.42	.28	50.0
Great Lakes	.54	.52	3.8
* Michigan	.68	.69	–1.4
* Ohio	.45	.47	– 4.3
Indiana	.21	.29	–27.6
* Illinois	.60	.53	13.2
* Wisconsin	.64	.56	14.3
Plains	.52	.56	– 7.1
* Minnesota	.72	.73	– 1.4
* Iowa	.48	.54	–11.1
Missouri	.45	.56	–19.6
* North Dakota	.50	.68	–26.5
South Dakota	.40	.55	–27.3
* Nebraska	.36	.33	9.1
* Kansas	.55	.50	10.0
Southeast	.32	.39	–17.9
Virginia	.16	.11	38.4
* West Virginia	.41	.38	7.9
* Kentucky	.43	.34	26.5
Tennessee	.28	.28	–
North Carolina	.28	.30	– 6.7
South Carolina	.17	.28	–39.3
Georgia	.33	.43	–23.3
Florida	.19	.31	–38.7
Alabama	.42	.41	2.4
Mississippi	.34	.43	–20.9
* Louisiana	.69	1.12	–38.4
Arkansas	.56	.54	3.7
Southwest	.40	.45	–11.1
* Oklahoma	1.03	1.18	–12.7
* Texas	.28	.30	– 6.7
* New Mexico	.52	.37	40.5
Arizona	.23	.32	–28.1
Rocky Mountain	.61	.82	–25.6
* Montana	.57	.58	– 1.7
* Idaho	.33	.43	–23.3
* Wyoming	.42	.44	– 4.5
Colorado	.81	1.28	–36.7
* Utah	.45	.52	–13.5
Far West[1]	1.16	.76	52.6
* Washington	.65	1.09	–40.4
* Oregon	.46	.64	–28.1
* Nevada	.31	.28	10.7
* California	1.31	.73	79.5
Alaska	.39	.38	2.6
* Hawaii	.62	.34	82.4

*Medicaid program fully operative during fiscal 1968.

[1] Excluding Alaska and Hawaii.

Note: The 1968 percentages are fiscal year 1968 public assistance expenditures related to calendar year 1967 State personal income; for 1958, both expenditures and income are for calendar year 1958.

Source: Department of Health, Education, and Welfare, Social and Rehabilitation Service; and U.S. Department of Commerce, Office of Business Economics, *Survey of Current Business, August 1968*.

TABLE A-17—COMPARATIVE RATIOS OF PUBLIC ASSISTANCE PROGRAMS WITH POPULATION AND INCOME, SELECTED COUNTIES[1]

State	City – County	Region	Percent of county pop. residing in city, 1980	Income 1980	Pop., 1980	Welfare recipients	Welfare payments	Aged, blind, disabled recipients
						CITY PERCENT OF RESPECTIVE STATE TOTALS		
Calif.	San Francisco-San Francisco	P	100.0	5.5	4.7	4.9	5.5	5.2
Colo.	Denver-Denver	M	100.0	33.9	28.2	38.5	32.6	28.7
La.	New Orleans-Orleans	WSC	100.0	24.5	19.3	18.5	18.0	13.7
Md.	Baltimore City	SA	100.0	28.2	30.3	69.5	70.7	60.8
Mo.	St. Louis City	WNC	100.0	17.9	17.4	26.8	21.1	15.7
N.Y.	New York City	M.A.	100.0	17.8	17.7	33.2	33.6	25.8
Penna.	Philadelphia-Philadelphia	M.A.	100.0	47.8	48.4	72.6	75.2	68.2
Va.	Norfolk	SA	100.0	8.3	7.7	13.0	14.3	8.0
						COUNTY PERCENT OF RESPECTIVE STATE TOTALS		
Mass.	Boston-Suffolk	N.E.	88.1	14.3	15.4	34.4	37.4	28.9
Neb.	Omaha-Douglas	WNC	87.0	31.9	24.3	30.0	36.7	17.6
Tex.	El Paso-El Paso	WSC	88.1	3.1	3.3	1.7	1.2	0.5
Tex.	San Antonio-Bexar	WSC	85.5	6.7	7.2	7.8	6.5	5.3
Kans.	Wichita-Sedgwick	WNC	74.2	18.1	15.8	21.3	18.8	10.6
Minn.	St. Paul-Ramsey	WNC	74.2	15.3	12.4	18.9	17.0	9.3
Tenn.	Memphis-Shelby	SA	70.3	21.2	17.8	22.1	19.8	16.1
Tex.	Dallas-Dallas	WSC	71.4	13.6	9.9	7.9	7.0	6.3
Tex.	Houston-Harris	WSC	75.4	18.2	13.0	7.7	7.5	7.0
Wisc.	Milwaukee-Milwaukee	ENC	71.6	32.5	28.2	38.1	39.0	16.9
Ariz.	Phoenix-Maricopa	M	86.2	56.5	51.0	48.0	45.3	46.3
Fla.	Tampa-Hillsborough	SA	69.1	7.5	8.0	9.0	8.9	8.7
Ga.	Atlanta-Dekalb, Fulton	SA	60.0	30.4	20.6	17.2	15.6	12.0
Ill.	Chicago-Cook, DuPage	ENC	65.2	61.2	54.0	67.8	71.1	56.1
Ind.	Indianapolis-Marion	ENC	68.2	17.9	15.0	14.7	15.1	12.8
Ky.	Louisville-Jefferson	ESC	63.9	28.6	20.1	15.9	15.4	10.7
Mich.	Detroit-Wayne	ENC	62.8	36.8	34.1	40.5	46.1	37.4
Mo.	Kansas City-Clay, Jackson	WNC	67.0	19.8	18.4	11.1	9.8	8.3
Ohio	Columbus-Franklin	ENC	60.0	7.8	7.0	12.9	12.7	9.0
Ohio	Toledo-Lucas	ENC	60.6	5.1	4.7	6.8	6.4	4.5
Okla.	OklahomaCity-Canadian, Cleveland, Oklahoma	WSC	63.5	26.3	22.0	16.9	14.8	12.3
Okla.	Tulsa-Osage, Tulsa	WSC	69.1	21.0	18.3	10.7	9.8	8.5
Tex.	Fort Worth-Tarrant	WSC	66.1	6.6	5.6	4.3	4.2	4.1
Ala.	Birmingham-Jefferson	ESC	53.7	25.7	19.4	12.1	11.8	12.0
Calif.	San Diego-San Diego	P	55.5	6.2	6.8	4.1	4.3	4.8
Minn.	Minneapolis-Hennepin (Minneapolis)	WNC	57.3	33.1 (18.3)	24.7 (14.1)	27.5	32.8	24.5
N.Y.	Buffalo-Erie	MA	50.0	6.8	6.3	4.0	3.6	4.4
N.Y.	Rochester-Monroe	MA	54.3	3.6	3.5	1.8	1.5	2.3
Ohio	Akron-Summit	ENC	56.5	5.7	5.3	4.8	4.7	3.7
Ohio	Cincinnati-Hamilton	ENC	58.2	9.9	8.9	12.1	11.6	10.0
Ohio	Cleveland-Cuyahoga	ENC	53.1	20.4	17.0	21.7	22.7	12.8
Ore.	Portland-Clackamas Multnomah	P	58.6	40.1	36.0	38.8	42.1	40.7
Wash.	Seattle-King	P	59.6	30.0	32.8	24.1	28.2	25.1
Hawaii	Honolulu-Honolulu	P	58.8	83.8	79.0	81.1	84.1	72.0
Calif.	Long Beach-Los Angeles	P	5.7	42.0	38.2	38.3	37.0	38.4
Calif.	Los Angeles-Los Angeles	P	41.1	42.0	38.2	38.3	37.0	36.4
Fla.	Miami-Dade	SA	31.1	22.0	18.9	14.7	13.6	12.3
N.J.	Jersey City-Hudson	MA	46.2	9.1	10.1	12.5	10.7	11.0
N.J.	Newark-Essex	MA	43.9	16.5	16.2	34.8	37.2	27.4
Ohio	Dayton-Montgomery	ENC	40.8	6.0	5.4	4.8	4.8	4.1
Penna.	Pittsburgh-Allegheny	MA	37.1	16.0	14.4	17.6	18.5	14.2
Calif.	Oakland-Alameda	P	40.4	5.8	5.8	5.5	5.7	5.3

TABLE A-17 (Cont'd)

State	City – County	Aged, blind disabled payments	AFDC recipients	AFDC payments	General assistance recipients	General assistance payments
		CITY PERCENT OF RESPECTIVE STATE TOTALS				
Calif.	San Francisco-San Francisco	5.6	4.2	4.9	12.2	17.7
Colo.	Denver-Denver	25.3	43.5	45.9	52.3	61.1
La.	New Orleans-Orleans	13.5	24.2	25.0	15.2	10.2
Md.	Baltimore City	83.2	70.2	71.4	83.2	84.8
Mo.	St. Louis City	15.2	39.1	39.0	17.0	18.4
N.Y.	New York City	70.1	73.4	75.9	77.0	77.0
Penna.	Philadelphia-Philadelphia	28.3	33.8	38.3	33.5	22.7
Va.	Norfolk	9.4	15.0	17.8	12.0	18.0
		COUNTY PERCENT OF RESPECTIVE STATE TOTALS				
Mass.	Boston-Suffolk	28.1	38.5	43.5	29.4	47.0
Neb.	Omaha-Douglas	17.5	50.0	51.5	—	—
Tex.	El Paso-El Paso	8.9	3.2	3.3	—	—
Tex.	San Antonio-Bexar	5.3	12.6	12.9	—	—
Kans.	Wichita-Sedgwick	10.3	27.0	29.1	21.8	17.4
Minn.	St. Paul-Ramsey	10.9	18.9	19.8	23.3	25.2
Tenn.	Memphis-Shelby	16.6	29.5	25.0	20.7	15.8
Tex.	Dallas-Dallas	8.2	10.9	10.7	—	—
Tex.	Houston-Harris	7.3	9.0	8.8	—	—
Wisc.	Milwaukee-Milwaukee	18.0	44.8	46.4	41.7	98.4
Ariz.	Phoenix-Maricopa	30.1	49.8	51.2	98.1[2]	58.3
Fla.	Tampa-Hillsborough	8.3	9.3	9.8	8.2	10.4
Ga.	Atlanta-Dekalb, Fulton	12.4	22.4	22.3	33.6	67.5
Ill.	Chicago-Cook, DuPage	59.7	72.2	74.8	81.2	77.3
Ind.	Indianapolis-Marion	14.6	15.5	15.4	—	—
Ky.	Louisville-Jefferson	11.7	18.7	21.3	—	—
Mich.	Detroit-Wayne	38.6	45.2	47.6	30.4	64.4
Mo.	Kansas City-Clay, Jackson	8.8	14.1	13.9	10.4	8.6
Ohio	Columbus-Franklin	9.4	12.4	13.0	19.5	20.3
Ohio	Toledo-Lucas	4.5	8.7	7.1	8.9	8.7
Okla.	Oklahoma City-Canadian, Cleveland, Oklahoma	11.8	21.4	22.3	33.9	34.0
Okla.	Tulsa-Osage, Tulsa	8.1	13.2	14.1	7.3	8.8
Tex.	Fort Worth-Tarrant	4.2	4.5	4.4	—	—
Ala.	Birmingham-Jefferson	11.7	12.6	12.7	14.7	19.6
Calif.	San Diego-San Diego	4.8	3.9	3.8	1.7	2.1
Minn.	Minneapolis-Hennepin (Minneapolis)	26.2	38.0	43.6	—	—
N.Y.	Buffalo-Erie	—	—	—	18.9	23.3
N.Y.	Rochester-Monroe	3.8	4.1	3.4	3.3	4.1
Ohio	Akron-Summit	2.1	1.9	1.5	1.3	0.8
Ohio	Cincinnati-Hamilton	3.7	5.0	6.3	5.6	4.7
Ohio	Cleveland-Cuyahoga	10.0	11.7	11.2	15.9	17.5
Ore.	Portland-Clackamas, Multnomah	13.4	26.3	28.7	18.1	24.8
Wash.	Seattle-King	37.4	39.8	41.6	28.8	45.7
Hawaii	Honolulu-Honolulu	27.0	22.0	23.3	32.0	41.8
		80.0	82.4	89.0	83.1	88.5
Calif.	Long Beach-Los Angeles	37.3	35.8	35.9	52.6	54.8
Calif.	Los Angeles-Los Angeles	37.3	35.8	35.9	52.6	54.8
Fla.	Miami-Dade	12.0	16.7	16.3	10.8	29.8
N.J.	Jersey City-Hudson	9.9	10.4	9.5	20.4	19.5
N.J.	Newark-Essex	28.2	36.8	37.9	32.4	45.2
Ohio	Dayton-Montgomery	4.0	5.4	5.5	4.0	4.6
Penna.	Pittsburgh-Allegheny	13.4	17.8	18.5	22.5	26.3
Calif.	Oakland-Alameda	5.4	5.8	8.0	3.0	3.4

[1] Welfare recipients and payments as of February 1968.

[2] Based on cases; recipients data not available.

Source: U.S. Bureau of the Census, *County and City Data Book*, 1962 (A Statistical Abstract Supplement) and U.S. Department of Health, Education and Welfare, Social and Rehabilitation Service, *Recipients of Public Assistance Money Payments and Amounts of Such Payments, By Program, State and County, February 1968.*

TABLE A-15—AMOUNTS AND BASES FOR ALLOCATING STATE INTERGOVERNMENTAL PROGRAMS FOR PUBLIC WELFARE, 1967

(Amounts in thousands of dollars)

State	Total	Categorical assistance programs							Other programs				
		Total	Old-age assistance[1]	AFDC	Aid to the blind	Aid to the disabled	Medicaid	Other and combined	Total	Child welfare services	Public welfare administration	General relief assistance	Miscellaneous other
United States	2,889,130	2,460,118	834,575	988,114	23,780	234,881	617,154	88,512	428,012	25,180	152,756	178,088	83,882
Alabama	–	–	–	–	–	–	–	–	–	–	–	–	–
Alaska	–	–	–	–	–	–	–	–	–	–	–	–	–
Arizona	–	–	–	–	–	–	–	–	–	–	–	–	–
Arkansas	73	–	–	–	–	–	–	–	73	–	–	–	(N) 73
California	834,119	816,170	(LX) 336,732	(LX) 372,460	(LX) 18,881	(LX) 132,872	(LX) 58,080	–	17,949	(M) 2,814[2]	–	–	(LX) (SM's) 15,336
Colorado	74,812	66,852	(LX) 35,314	(LX) 18,268	(LX) 237	(LX) 5,212	–	(LX)(M) 2,834	7,950	–	(LX) 7,834	–	(M) 116
Connecticut	3,680	–	–	–	–	–	–	–	3,680	–	–	(LX) 3,680	–
Delaware	1,040	–	–	–	–	–	–	–	1,040	–	–	(LX) 1,040	–
Florida	–	–	–	–	–	–	–	–	–	–	–	–	–
Georgia	10,695	–	–	–	–	–	–	–	10,695	(LX) 1,294	(LX) 9,401	–	–
Hawaii	–	–	–	–	–	–	–	–	–	–	–	–	–
Idaho	–	–	–	–	–	–	–	–	–	–	–	–	–
Illinois	78,511	11,135	–	–	–	–	(M) 11,135	–	67,376	–	–	(E) 59,857	(LX) 7,519
Indiana	48,538	46,031	(LX) 23,360	(LX) 19,198	–	(LX) 3,062	–	(LX)(M) 411	2,507	(LX) 1,759	–	–	(LX)(M) 748
Iowa	1,684	–	–	–	–	–	–	–	1,684	–	(M) 299	–	(M) 1,385
Kansas	52,242	49,854	(LX)(LX) 30,827[3]	(LX) 17,117	(LX) (x)	(LX) (x)	–	(LX) 1,910	2,388	–	–	(LX) 2,388	–
Kentucky	–	–	–	–	–	–	–	–	–	–	–	–	–
Louisiana	–	–	–	–	–	–	–	–	–	–	–	–	–
Maine	700	–	–	–	–	–	–	–	700	–	–	(M) 700	–
Maryland	76,187	57,839	(LX) 5,720	(LX) 44,526	(LX) 284	(LX) 7,418	–	–	18,348	(LX) 4,581	–	(LX) 7,318	(LX)(LX) 6,333
Massachusetts	241,276	225,060	(LX)(S) 52,288	(LX) 88,854	–	(LX) 17,872	(LX)(LX) 66,344	–	16,317	–	–	(M) 16,317	–
Michigan	36,400	13,913	–	–	–	–	(LX)(M) 13,913	–	22,487	–	(M) 183	(LX)(M) 22,294	–
Minnesota	108,436	106,651	(LX) 18,795	(LX) 24,865	(LX) 681	(LX) 6,182	(LX) 57,048	–	1,785	–	(M) 154	–	(E)(M) 1,610
Mississippi	482	482	–	–	–	–	–	(M) 482	–	–	–	–	–
Missouri	707	–	–	–	–	–	–	–	707	–	–	–	(N)(LX) 707
Montana	185	–	–	–	–	–	–	–	185	–	–	(E) 185	–
Nebraska	23,427	21,680	(LX) 3,839	(LX) 7,771	(LX) 482	(LX) 2,885	(LX) 10,784	–	1,667	(LX) 263	–	–	(LX)(M) 1,289
Nevada	–	–	–	–	–	–	–	–	–	–	–	–	–
New Hampshire	55	55	–	–	–	–	–	(M) 55	–	–	–	–	–
New Jersey	107,820	100,732	(LX)(LX) 28,732	(LX) 61,830	–	(LX) 10,180	–	–	7,088	–	–	(E) 7,038	–
New Mexico	–	–	–	–	–	–	–	–	–	–	–	–	–
New York	815,146	665,280	(LX) 48,389	(LX) 257,802	(LX) 2,745	(LX) 27,885	(LX) 251,488	(LX) 75,721	149,866	(LX) 1,256	(LX) 125,000	–	(LX) 23,510
North Carolina	85,677	76,756	(LX)(E) 25,629	(LX)(E) 28,116	–	(LX)(E) 14,612	–	(LX)(M)(M) 8,239	8,921	–	(LX) 8,848	–	(LX) 73
North Dakota	771	–	–	–	–	–	–	–	771	–	(LX) (x)	(E) 771[4]	–
Ohio	54,038	–	–	–	–	–	–	–	54,038	(M) 1,812	–	(M) 47,191	(LX)(M) 5,035
Oklahoma	–	–	–	–	–	–	–	–	–	–	–	–	–
Oregon	1,448	58	(LX) 58	–	–	–	–	–	1,391	–	–	–	(P)(LX) 1,391
Pennsylvania	27,813	15,676	–	–	–	–	(M) 15,676	–	12,137	(LX) 11,703	–	–	(LX) 434
Rhode Island	4,711	–	–	–	–	–	–	–	4,711	–	–	(M) 4,711	–
South Carolina	–	–	–	–	–	–	–	–	–	–	–	–	–
South Dakota	110	–	–	–	–	–	–	–	110	–	–	(P) 110	–
Tennessee	137	–	–	–	–	–	–	–	137	–	–	–	–
Texas	–	–	–	–	–	–	–	–	–	–	–	–	–
Utah	–	–	–	–	–	–	–	–	–	–	–	–	–
Vermont	544	–	–	–	–	–	–	–	544	–	–	(M) 530	–
Virginia	38,830	30,680	(LX) 7,885	(LX) 16,831	(LX) 874	(LX) 4,970	–	–	8,150	–	(LX) 853	(LX) 1,754	(LX)(LX) 5,543
Washington	6,842	6,801	–	–	–	–	(NS) 6,801	–	41	–	–	–	–
West Virginia	1,994	–	–	–	–	–	–	–	1,994	–	(E) 1,994	–	–
Wisconsin	46,890	34,543	(LX) 8,808	(LX) 21,673	(LX) 452	(LX) 2,717	–	–	12,347	–	–	–	(M)(NS)(N) 12,196
Wyoming	5,025	3,862	(LX)(LX) 1,754	(LX) 1,522	(LX) 43	(LX) 543	–	–	1,163	–	(x)	(E) 817[4]	(LX) 346

Note: Detail does not necessarily add to totals due to exclusion of some minor items.

[1] For several States, includes medical assistance other than medicaid.
[2] Includes amounts for special services for aged.
[3] Old-age assistance includes amounts for aid to the blind and aid to disabled.
[4] General relief assistance includes amount for public welfare administration.

KEY:
LX -Share of State and Federal aid based on local expenditures.
M - State aid based on reimbursement of approved local expenditures.
R -State aid based on specified rate per person per time period.
E -State aid based on measure so as to equalize.
N -State aid based on measure of program need.
S -State aid distributed by State Department of Health.
P -State aid based on population.
NS -Basis of distribution not specified.

Source: U.S. Bureau of the Census, Census of Governments, 1967 Vol. 6, No. 4, *State Payments to Local Governments, and State Government Finances in 1967.*

TABLE A-19—STATE AND LOCAL EXPENDITURE FOR HEALTH AND HOSPITALS, BY GOVERNMENTAL SOURCE OF FINANCING, BY STATE, 1967

State and region	Total (millions)	Per capita	Percent financed from— Federal aid	State funds	Local funds
United States	$6,646.6	$33.58	4.8	46.7	48.5
New England	366.7	32.37	4.9	71.2	23.8
Maine	19.1	18.60	7.8	77.0	15.2
New Hampshire	15.3	22.34	6.5	84.3	9.2
Vermont	8.4	20.16	14.3	83.3	2.4
Massachusetts	215.2	39.70	2.6	65.5	31.8
Rhode Island	28.5	31.81	16.9	77.5	5.6
Connecticut	80.2	27.40	4.9	79.3	15.8
Mideast	1,827.8	43.54	2.0	50.6	47.4
New York	1,129.1	61.52	0.9	47.6	51.5
New Jersey	207.8	29.55	2.7	39.1	58.2
Pennsylvania	281.3	24.19	4.0	76.7	19.3
Delaware	14.9	28.42	10.1	85.2	4.7
Maryland	130.3	35.37	4.4	59.3	36.2
Dist. of Columbia	66.2	81.83	3.8	—	96.2
Great Lakes	1,262.4	32.27	3.7	49.6	46.7
Michigan	358.8	41.79	4.1	44.4	51.5
Ohio	229.1	22.85	4.9	43.3	51.8
Indiana	150.1	30.02	3.5	51.1	45.4
Illinois	376.4	34.55	2.7	57.5	39.8
Wisconsin	138.0	32.93	3.4	50.8	45.8
Plains	466.7	29.25	5.3	45.8	48.9
Minnesota	118.8	33.16	4.7	46.7	48.6
Iowa	78.1	27.63	3.4	37.7	58.9
Missouri	139.9	30.39	4.9	45.7	48.5
North Dakota	10.8	16.88	13.0	77.8	9.3
South Dakota	10.0	14.82	8.0	60.0	32.0
Nebraska	42.0	29.24	7.1	30.7	62.1
Kansas	69.1	30.38	6.4	55.7	38.1
Southeast	1,260.6	29.27	8.5	46.0	45.6
Virginia	112.7	24.84	5.5	79.1	15.4
West Virginia	37.9	21.09	9.2	62.3	28.5
Kentucky	75.6	23.66	10.5	52.7	36.8
Tennessee	131.1	33.68	6.2	36.0	57.8
North Carolina	114.5	22.76	10.7	56.0	33.4
South Carolina	66.2	25.46	14.8	43.1	42.1
Georgia	179.8	39.87	6.1	32.9	61.0
Florida	251.6	41.97	6.8	27.5	65.7
Alabama	76.7	21.65	11.2	47.2	41.5
Mississippi	63.2	26.91	9.3	33.1	57.6
Louisiana	107.0	29.21	9.5	75.0	15.5
Arkansas	44.4	22.55	14.0	47.5	38.5
Southwest	348.9	21.79	9.0	43.3	47.7
Oklahoma	65.2	26.12	8.0	48.6	43.3
Texas	223.1	20.52	9.5	43.0	47.5
New Mexico	26.3	26.20	8.4	41.1	50.6
Arizona	34.3	20.99	8.5	36.2	55.4
Rocky Mountain	140.4	29.80	9.1	53.2	37.7
Montana	14.8	20.79	11.0	47.9	41.1
Idaho	22.1	31.56	10.0	34.8	54.8
Wyoming	14.0	44.53	16.4	35.0	48.3
Colorado	68.1	34.48	6.0	62.7	31.3
Utah	21.8	21.14	12.0	57.4	31.0
Far West[1]	933.6	37.62	3.7	40.9	55.4
Washington	75.3	24.39	6.5	57.8	35.7
Oregon	51.7	25.84	6.8	59.8	33.3
Nevada	24.0	54.06	5.8	15.4	78.8
California	782.6	40.85	3.2	38.8	58.0
Alaska	8.9	32.76	11.2	75.3	13.5
Hawaii	30.8	41.63	11.4	68.8	19.8

[1] Excluding Alaska and Hawaii.

Source: Compiled by ACIR staff from various reports of the Governments Division, U.S. Bureau of the Census.

TABLE A-20—AMOUNTS AND BASES FOR ALLOCATING STATE AID FOR PUBLIC HOSPITALS, 1967

(In thousands of dollars)

State	Total Intergovern-mental	Hospital Construction	Tuberculosis Hospitals	Hospital Care For Indigents	Other Hospital Uses	Mental Patients	Crippled children	Cancer Control
United States	115,201	61,718	18,222	566	2,591	30,986	809	250
Alabama	6,725	LX 3,647	LX 2,938	M 140				
Alaska								
Arizona	677	LX 677						
Arkansas	1,406	LX 1,406						
California	10,254	LX 7,441	R 2,813					
Colorado	34	LX 34						
Connecticut								
Delaware								
Florida	2,352	LX 2,075			F 277			
Georgia	5,275	LX 5,275						
Hawaii	2,201	LX 21			K 2,180			
Idaho	374	LX 374						
Illinois	1,377	LX 419	R 958					
Indiana	1,430	LX 1,145	R 285					
Iowa	630	LX 630						
Kansas	1,580	LX 1,580						
Kentucky	2,261	LX 2,233	R 28					
Louisiana	3,293	LX 3,272						
Maine								
Maryland	382	LX 382						
Massachusetts	4,279		K 4,145		M 134			
Michigan	10,008	LX 2,527	R,C 1,686			R 5,795		
Minnesota	205	LX 182	R 23					
Mississippi	2,388	LX 2,388						
Missouri	2,051	LX 818	R 1,224	R 9				
Montana	44	LX 44						
Nebraska	748	LX 748						
Nevada	128	LX 128						
New Hampshire								
New Jersey	8,218	LX 158	M 174			LX 7,844		
New Mexico	213	LX 213						
New York	639	LX 639						
North Carolina	5,063	LX 4,898		M 165				
North Dakota								
Ohio	3,594	LX 2,233	R 1,361					
Oklahoma	1,441	LX 1,441						
Oregon	55	LX 55						
Pennsylvania	[illegible]	LX 560						
Rhode Island								
South Carolina	4,304	LX 3,794	R 55				M 205	M 250

Table 20 (cont'd)

State	Total Intergovern-mental	Hospital Construction	Tuberculosis Hospitals	Hospital Care For Indigents	Other Hospital Uses	Mental Patients	Crippled Children	Cancer Control
United States								
South Dakota	126	LX 126						
Tennessee	3,180	LX 2,515		M 252			S 404	
Texas	3,657	LX 3,657						
Utah	444	LX 444						
Vermont								
Virginia	1,209	LX 1,208						
Washington	1,338	LX 137	R,E 1,188					
West Virginia	556	LX 556						
Wisconsin	18,990	LX 252	R 1,182			LX 17,546		
Wyoming	1,514	LX 1,498						

Note: Detail does not necessarily add to totals due to exclusion of some minor items.
KEY:
LX -State or State and Federal aid based on local expenditures.
M -State aid based on reimbursement of approved local expenditures.
R -State aid based on specified rate per person per time period.
F -State aid is a flat grant.
C -State aid based on case loads.
S -State aid distributed by State Department of Public Health.
E -State aid based on a measure as as to equalize.
K Contract basis.
Source: U.S. Bureau of the Census, Census of Governments, 1967 Vol. 6, No. 4, *State Payments to Local Governments, and State Government Finances in 1967.*

TABLE A-21—AMOUNTS AND BASES FOR ALLOCATING STATE AID FOR PUBLIC HEALTH, 1967

(In thousands of dollars)

	Total inter governmental	County or local health work	Care of tuberculosis patients	Public health assistance	Crippled children	Handicapped children	Mental health	Nursing aid	Other public health
U.S.	194,631	83,408	1,182	7,287	11,004	2,108	64,682	317	13,330
Ala.	1,800	(S) 1,534							
Alas.	—						(LX) 256		
Ariz.	646	(M) 646							
Ark.	—								
Calif.	39,830			(P) 7,287	(E) 9,997	(LX) 2,108	(LX),(M) 8,827		(M) 1,180
Colo.	900	(LX) 829							
Conn.	83	(LX) 46						(F) 47	
Dela.	—								
Fla.	1,050								(LX) 1,050
Ga.	5,650	(S,LX) 3,522							
Hawaii	—								
Id.	—								
Ill.	2,231	(S,LX) 993					(S) 1,283		
Ind.	2,392	(LX) 749			(LX) 643		(LX) 1,000		
Ia.	495						(R) 495		
Kan.	309	(S,LX) 309							
Ky.	2,873	(S,LX) 2,873							
La.	1,867	(LX) 1,867							
Me.	—								
Md.	1,152		(M) 1,152						
Mass.	100								
Mich.	7,097	(LX) (S) 2,848					(LX) 4,149		
Minn.	271	(S) [illegible]	30					(R) 117	
Miss.	—								
Mo.	672	(M) 672							
Mont.	—								
Neb.	521	(M) 521							
Nev.	270						(M) 142		(P) 128
N.H.	11						(LX) 11		
N.J.	3,200	(E) 1,036					(M) 1,734		(N.S.) 182
N.M.	—								
N.Y.	83,501	(LX) 46,905					(LX) 34,184		(LX) 2,362
N.C.	3,029	(S) 2,717							(S) 312
N.D.	178	(S) 178							
Ohio	2,400	(LX) 2,265							
Okla.	—								
Ore.	1,300	(LX) 387					(LX) 778		
Pa.	10,800	(LX) 3,247							(S) 7,287;(LX) 185
R.I.	89	(LX) 88							
S.C.	2,115	(F,P) 2,115							
S.D.	65						(M) 65		
Tenn.	—								
Tex.	100								
Utah	284	(S) 69					(LX) 215		
Vt.	—								
Va.	2,413	(M) 2,368							(LX) 45
Wash.	1,700	(NS) 1,700							
W. Va.	550	(S) 550							
Wisc.	1,981				(LX) 384		(LX) 1,580	(R) 67	
Wyo.	86							(M) 86	

Note: Detail does not necessarily add to totals due to exclusion of some minor items.
KEY:
LX State or State and Federal Aid based on local expenditures.
M -State aid based on reimbursement of approved local expenditures.
R -State aid based on specified rate per person per time period.
F -State aid is a flat grant.
E -State aid is based on equalization formula.
S -State aid distributed by State Department of Public Health.
P -State aid based on population.
NS -Distribution factors not specified.
Source: U.S. Bureau of the Census, Census of Governments, 1967 Vol. 6, No. 4, *State Payments to Local Governments, and State Government Finances in 1967.*

Chapter V

Financing Highways—The Urban Requirement

The construction and maintenance of highways and streets is the second most costly domestic governmental function—next to education. Total public highway expenditure amounted to about $14 billion in fiscal 1967 with virtually all of this spending actually done by State and local governments. Like public education and welfare, however, the building of public roads involves extensive intergovernmental financial participation. By their very nature, road facilities are designed to connect geographic areas. As such, this function is marked by "benefit-spillovers"—as the benefits of such facilities extend beyond the areas in which the facility is located. These spillover effects also differ markedly among the several classifications of road systems—being substantially greater for interstate than for farm-to-market roads.

HISTORICAL TRENDS OF STATE HIGHWAY AID

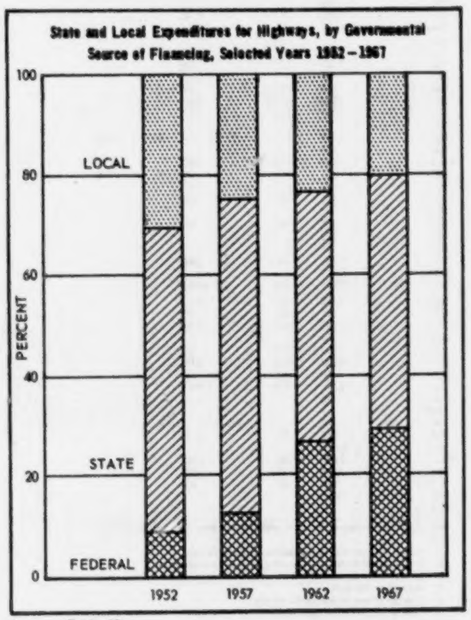
Significant Federal Government participation in the highway program goes back to 1916 when the Federal aid highway program was inaugurated. Prior to that, roads and streets were left almost entirely to counties and cities. Thus, in 1902 States provided only 3 percent of the $175 million spent on highways. By 1913, the State share had risen to 7 percent. In 1922, with the Federal aid highway program underway, Federal aid furnished 7 percent of the $1.3 billion highway bill and the States were putting up almost one-fourth the non-federal cost.

Heavy State financial involvement in highway construction and maintenance started with the Federal aid program, which from the beginning required dollar for dollar matching. In order to administer the Federal-State program, each State had to establish a highway department; to finance their share of the costs the States began to levy motor fuel taxes in 1919.* By 1929 all States were collecting such taxes (Hawaii adopted a gasoline tax in 1932 and Alaska in 1946).

The use of Federal aid funds was restricted to the development of State primary highway systems until the mid-1930's when the program was broadened to include secondary roads and the urban extensions of State highways. This Federal aid program, now known as the "regular" or "A-B-C program," has generally supported less than 12 percent of State and local highway expenditure until establishment of the massive interstate highway program in 1956. By 1967, Federal highway aid amounted to about $4 billion ($1 billion "regular" and $3 billion interstate), almost 30 percent of total expenditure for highway construction and maintenance (figure 17 and table 24). Federal highway aid continued at

FIGURE 17

THE FEDERAL SHARE OF HIGHWAY FINANCING HAS BEEN GROWING STEADILY



Source: Table 23.

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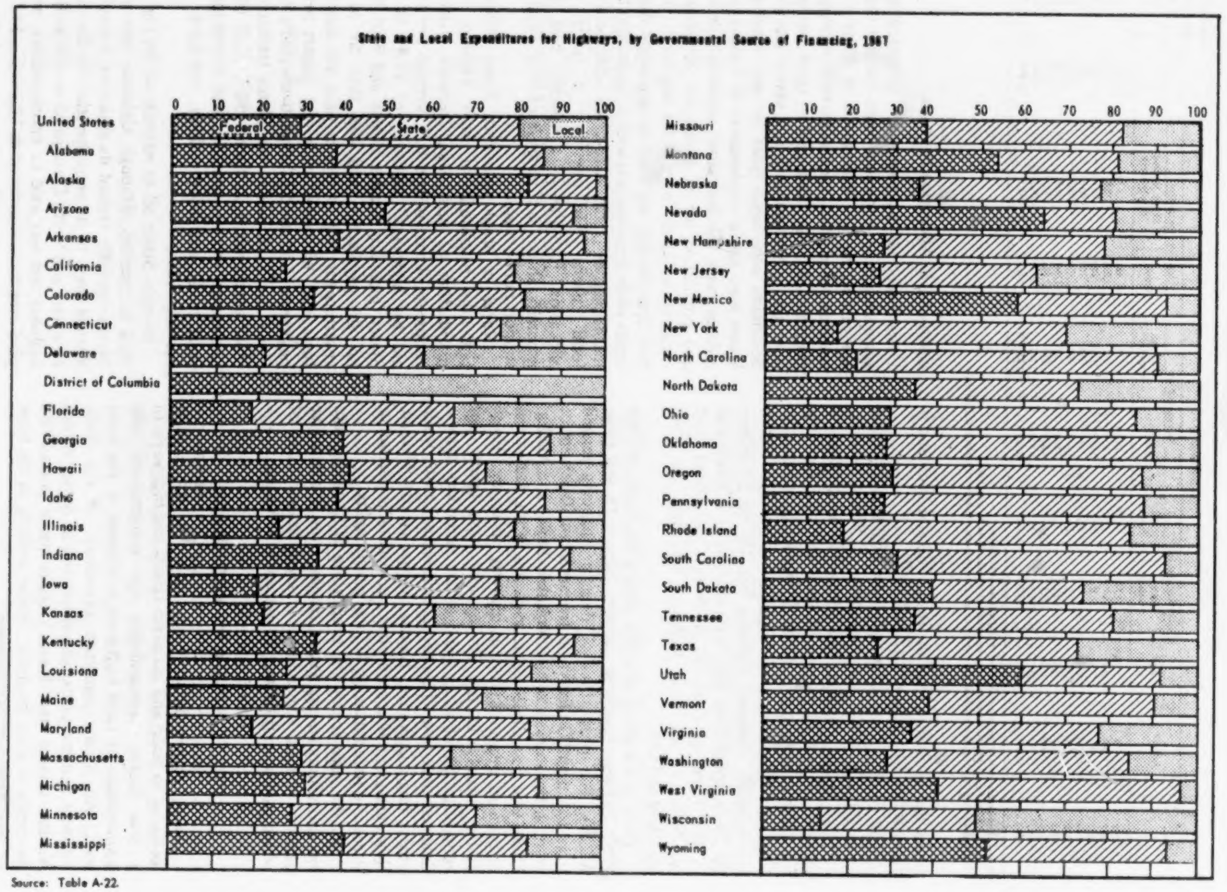
*All States were already registering motor vehicles by 1914, but this was primarily a regulatory rather than a revenue measure.

FIGURE 18

THE HIGHWAY FINANCING PATTERN VARIES CONSIDERABLY AMONG THE STATES

FIG 18



Source: Table A-22.

TABLE 24–STATE AND LOCAL EXPENDITURE FOR HIGHWAYS, BY GOVERNMENTAL SOURCE OF FINANCING, SELECTED YEARS, 1922-1967
(Dollar amounts in millions)

Year[1]	Total expenditure								Expenditure from own sources		
	Amount	Percent financed from–			State expenditure		Local direct expenditure		Amount	Percent financed from	
		Federal aid	State funds	Local funds	Direct[2]	Intergovernmental	Amount	Percent financed from State aid		State funds	Local funds
1922	$ 1,294	7.1%	21.7%	71.2%	$ 373	$ 70	$ 961	7.1%	$1,202	23.4%	76.6%
1927	1,809	4.6	34.7	60.7	614	197	1,295	15.2	1,726	36.4	63.6
1932	1,741	11.0	50.6	38.4	1,072	229	898	25.5	1,550	56.8	43.2
1942	1,490	11.4	64.4	24.2	790	344	700	48.1	1,320	72.7	27.3
1948	3,036	10.0	55.9	34.1	1,510	507	1,528	33.2	2,731	62.1	37.9
1952	4,660	9.1	60.7	31.2	2,558	728	2,084	34.8	4,236	66.6	33.4
1957	7,848	12.5	62.3	25.2	4,894	1,086	2,954	36.7	6,870	71.2	28.8
1962	10,357	25.7	48.3	24.0	6,635	1,327	3,722	35.7	7,692	67.2	32.8
1967	13,956	29.1	50.2	20.7	9,423	1,861	4,533	41.1	9,896	70.8	29.2

Note: Excludes expenditure for highway debt service and highway law enforcement.

[1] Data for 1957 and subsequent years include Alaska and Hawaii, which are excluded for prior years.

[2] All Federal aid highway funds assumed to be spent directly by the State government (except in the District of Columbia).

about the $4 billion level in fiscal 1968 and 1969 and is budgeted at $4.5 billion for fiscal 1970.

The States' share of non-federal highway financing grew steadily until the beginning of World War II, dropped during the War, and since 1952 has fluctuated between 67 and 71 percent of State and local spending for highway and street construction and maintenance. In 1967, the States financed 71 percent of the $10 billion non-federally financed highway bill. Of the $7 billion the States spent from their own sources, $1.9 billion was in the form of financial aid which comprised over two-fifths of all local highway spending, up from one-third in 1948.

There is a marked diversity among the States in their 1967 highway financing patterns (figure 18 and table A-22*). The proportion of Federal financing ranged from less than 20 percent in five states to 50 percent or more in the sparsely settled Mountain States and Alaska. There was also considerable variation in the State-local division of responsibility for highway financing. Those States (mainly in the South) that have taken over administration of all or most of the secondary system financed over four-fifths of the non-federal costs, while others (e.g., Delaware, Kansas, Massachusetts, Nevada, New Jersey and Wisconsin) left a considerable portion of street and road financing to local governments.

By the same token, the proportion of State highway aid also differs among States, ranging from less than five percent of local expenditure in seven States (three of which paid no aid) to over 50 percent in seventeen.

STATE HIGHWAY PROGRAMS

States pursue differing approaches in aiding their localities to build and maintain streets and highways. In a few States, responsibility for construction and maintenance of rural highways is retained at the State level. All States construct extensions of the State highway systems in municipalities and all States except Alaska, Hawaii and West Virginia make grant-in-aid payments to their localities, almost entirely in the form of shared highway-user revenue.

Grant-In-Aid Allocation Formulas

Highway aid payments are allocated among local governments on a formula basis. Usually these formulas are related to the disposition of State highway-user revenues: a portion (generally in percentage terms) to the State highway fund; part to rural local governments (counties and townships); and part to municipalities. To determine how much goes to each local government, States may use a combination of factors, such as road mileage, area, gasoline sales, motor vehicle registrations, and population–all of which are designed to serve as measures of local "needs" for highways. Generally the first four factors are used to apportion funds for rural roads while population is used to apportion funds among municipalities (table A-23). An additional measure of local "needs"–and one that is rarely included in allocation formulas–is a specific cost factor; also generally absent is a measure of local fiscal capacity to support public roads.

Rural vs. urban recipients. Sharp differences mark both the magnitude of State highway aid and the distribution of such funds between rural and urban recipients. Thus, with a U.S. average per capita "State aid for highways" payment of $9.45 in 1967, eight States (including Alaska, Hawaii and West Virginia with no aid payments) paid less than $1 to their local governments and 24 States paid out more than $10. Iowa and Wisconsin made the largest per capita aid payments–$23 and $22 respectively (table A-24).

Of the $1.9 billion the States transferred to their local governments in fiscal 1967, $1.2 billion, about two-thirds, went to counties and townships largely for rural roads, and $614 million, one-third, was paid to municipalities.

In eight States all or virtually all the highway aid was paid to counties, although Alabama–one of those eight States–recently revised its allocation formula to provide a small share to its municipalities. On the other hand, in Delaware and North Carolina all or substantially all State highway aid was paid to municipalities, while Virginia paid over three-fourths of its highway aid to cities. These three States administer all or most of the county road systems, as does West Virginia, which together with

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*Appendix tables appear at the end of each chapter.

Alaska and Hawaii* shares no highway-user revenue with local governments.

Townships received substantial amounts of highway aid in a dozen States, including all six New England States where those governments perform both urban and rural functions. In the other six States, highway aid to townships is primarily for rural roads.

A somewhat more precise distinction between rural and urban roads and streets is made by the U.S. Bureau of Public Roads. That agency distinguishes certain counties as urban and also classifies townships in New England, New Jersey, New York and Pennsylvania as rural or urban on the basis of population density.** Nonetheless, the general picture is one of rural dominance, with only 35.8 percent of the State highway aid going for urban streets in calendar 1967 (table A-25).

There has, however, been some diminution of this rural dominance. Both Census and Public Roads data reveal significant increases since 1962 in urban highway aid, with outstanding upward shifts in certain States (for example, Arkansas, California and Georgia). Nationally, aid for urban streets rose considerably more between 1962 and 1967 than did aid for rural roads–up 70 percent for the former and only 30 percent for the latter. As a result, the proportion of State highway aid for urban streets rose from 30 percent to 36 percent over the five-year period.

Direct State Expenditure on Rural and Urban Highways

In addition to transferring the $1.9 billion of highway aid to their counties and municipalities, the States themselves paid $9.4 billion for highway construction and maintenance in fiscal 1967–about two-thirds of all highway expenditures. Over $5 billion represented State construction and maintenance of the State primary roads, including each State's portion of the interstate highway system. In addition, the States spent directly some $580 million on secondary (rural) roads under their control and about $350 million on rural roads controlled by counties and townships. They also spent $2.7 billion for construction and maintenance of municipal extensions of State highways and another $50 million on locally controlled municipal streets.

RURAL DOMINATION OF STATE HIGHWAY PROGRAMS

The modern highway program was started in 1916 as a move to "get the farmer out of the mud." Most of the paved roads at that time were in cities and towns and extended along Main Street into the adjacent rural area for a short distance, where they terminated abruptly.[1] It was already obvious that the automobile would become the major means of transportation and that farms and cities would have to be connected by a new road system. Thus, the highway program was started in order to develop a system of rural roads and, in fact, the Federal Aid Road Act of 1916 placed the responsibility for administering the program in the U. S. Department of Agriculture.

As noted, there has been some shift in the allocation of State highway aid funds toward urban areas, especially in the past decade during which urban transportation needs have received greater Federal and State emphasis. Nevertheless, urban highway needs still far exceed the financial assistance they receive. On the basis of 1958-59 data, Philip H. Burch, Jr. found the urban proportion of State highway aid to be 23.5 percent, less than half the estimated "percent that local urban highway costs should be of total local highway costs."[2] Looking at *total* State highway expenditure (direct and State aid), Burch found that about one-fourth was spent on State and local urban arteries in the three year period 1957-1959, estimating the "probable proper percent of State highway funds that should be expended on State and local urban arteries" at 44.7 percent.[3] A similar conclusion can be drawn from current highway statistics. Of total State expenditure for highway construction, maintenance and grants in 1967, 31.4 percent was for urban streets and 68.6 percent for rural roads (figure 19 and table 25). Yet half of all motor vehicle travel in 1967 (an estimated 483.8 billion vehicle miles out of a total of 965.1 billion) was on urban streets.

The number of vehicle miles travelled, however, is only one of the relevant factors in measuring the urban-rural allocation imbalance. The concentration of usage is another–the same volume of traffic is carried on urban streets (with less than 15 percent of the total street and road mileage) as on all rural roads. The much higher cost of acquiring rights-of-way and the costs involved in sub-street facilities such as sewers and utility conduits stand out as other important cost considerations. The U.S. Bureau of Public Roads estimates, in connection with construction of the interstate highway system, that a mile of urban extension has cost four to five times as much as a mile of rural road.

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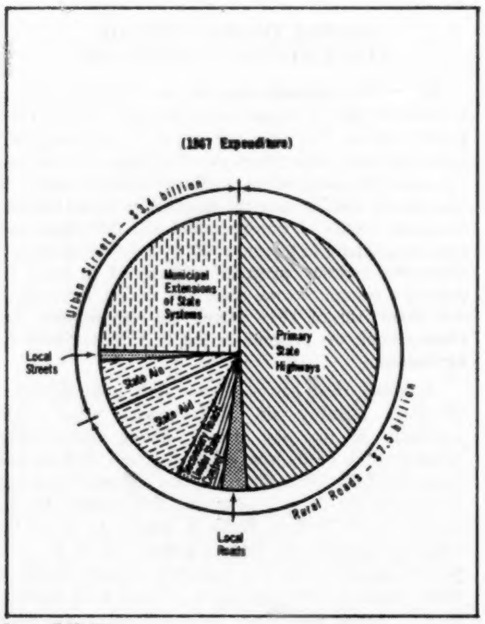
*In Hawaii, however, the registration of motor vehicles is a local government function, and the total proceeds from motor vehicle registration fees is retained locally.

**There are some conceptual differences between "State intergovernmental expenditure for highways" as reported in Census Bureau government finance data and "State grants-in-aid for local roads and streets" as reported in the *Highway Statistics* series of the Bureau of Public Roads. As a result, although the totals are almost identical there are significant differences for individual States. The *Highway Statistics* reports, for example, include retained shares of locally collected State motor vehicle registration fees with State aid; the Census data count such amounts(which are substantial in some States, e.g., Hawaii, Montana and Texas) as local taxes. On the other hand, Census data report as State intergovernmental expenditure payments to local governments which act as contractors for the States, while the public roads data count such payments as direct State expenditure.

FIGURE 19

RURAL ROADS DOMINATE STATE EXPENDITURE



Source: Table 24.

TABLE 25—TOTAL STATE EXPENDITURE FOR CONSTRUCTION, MAINTENANCE AND STATE AID FOR RURAL AND URBAN HIGHWAYS, 1967
(Dollar amounts in millions)

Item	Amount	% distribution
Rural highways		
Direct State expenditure on:		
Primary State highways	$ 5,346.1	49.0
Secondary roads under State control	582.6	5.3
Local roads	345.8	3.2
Total direct	6,274.5	57.6
State aid	1,199.9	11.0
Total rural	7,474.4	68.6
Urban streets		
Direct State expenditure on:		
Municipal extensions of State systems	2,708.5	24.8
Local streets[1]	49.7	0.5
Total direct	2,758.2	25.3
State aid	669.7	6.1
Total urban	3,427.9	31.4
Total State expenditure	$10,902.3	100.0

[1] Excludes District of Columbia.

Source: U.S. Bureau of Public Roads, *Highway Statistics 1967*, Tables SF-4 and SF-6.

A recent report of the Senate Committee on Public Works took note of the rural-urban highway imbalance, stating:

> From as far back as 1920 to the present, about half the motor vehicle miles of travel have been driven in urban areas; but during this entire period the proportion of total Federal and State investment in urban highway improvements has been considerably less than this. Vehicle miles of travel alone is not an entirely valid measure of relative need for highway investments, of course. But it is a reasonably satisfactory indicator of the tendency, over the years, to allow deficiencies in the urban highway plant to accumulate more rapidly than in rural areas and also for such deficiencies to be corrected using other than highway user revenue.[4]

The Alabama allocation formula for distribution of motor fuel tax receipts illustrates this rural dominance. Before revising its formula in 1967, Alabama allotted a total of $62,500 to all its cities and towns and divided 3/7 of the 7-cent tax equally among its counties. Under this formula the cities received $62.5 *thousand* and the counties received $54.4 *million* in 1966. Under the revised formula, the counties are allocated 55 percent of the tax proceeds (after certain deductions), and of this amount, 45 percent is divided equally among the counties and 55 percent in proportion to population. Ten percent of each county's share is then allocated among its cities and towns in proportion to population.[5] Roughly, this works out to about 50 percent of the net proceeds for rural roads and 5 percent for urban streets (see table A-23). In calendar year 1967, the counties were paid $44.2 million and the cities and towns received $1.1 million, reflecting in part the provisions of the new allocation.[6] Even on a *straight mileage* basis, municipal streets represent about 15 percent of the road mileage under local control in Alabama (9,148 of a total of 55,573 miles).[7]

State-Local Division of Responsibility for Rural and Urban Highways

States have not only provided a disproportionate share of their intergovernmental highway aid to rural areas, they have also directly assumed a greater responsibility for provision of rural than of urban highway facilities. This reflects more than a rural-oriented bias, however, as many of the sparsely settled and poor jurisdictions simply cannot provide the requisite road facilities at "efficient" costs. Thus, to avoid duplication of administrative facilities and to secure more intensive use of capital equipment, the larger unit of State government has taken over this functional responsibility. States now assume responsibility for 90 percent of the expenditure (from both Federal and State funds) for construction and maintenance of rural roads in contrast to about three-fourths of the spending on urban streets (table 26).

TABLE 26–STATE AND LOCAL CONSTRUCTION AND MAINTENANCE EXPENDITURE FOR RURAL AND URBAN HIGHWAYS, 1967 AND 1969[1]
(In millions of dollars)

Item	Rural 1967	Rural 1969 (forecast)	Urban 1967	Urban 1969 (forecast)
State expenditure[2]				
Direct expenditure	6,481	7,088	2,610	3,197
State aid	1,201	1,287	892	823
Less receipts from localities	– 135	– 140	– 71	– 90
Net State expenditure	7,567	8,235	3,431	3,930
Local expenditure				
Counties and townships:				
Direct expenditure	1,861	2,028	89	88
Payments to States	135	140	–	–
Payments to municipalities			33	34
Less State aid	–1,201	–1,287	–	–
Less municipal aid	– 2	– 2	–	–
Net expenditure, counties and townships	793	879	122	122
Municipalities				
Direct expenditure	–	–	1,756	1,857
Payments to States	–	–	71	90
Payments to counties and townships	2	2		
Less State aid	–	–	– 892	– 823
Less county and township aid	–	–	– 33	– 34
Net municipal expenditure	2	2	1,101	1,090
Net local expenditure	795	881	1,223	1,212
Total State and local	8,362	9,116	4,654	5,142
%State	90.5	90.2	73.7	76.4
%Local	9.5	9.8	26.3	23.6

[1] State data are generally for calendar years; local data for fiscal years ending in various months of the calendar year.

[2] Includes District of Columbia.

Source: U.S. Bureau of Public Roads, Tables HF-1 and HF-2, November 1968.

TABLE 27–ROAD AND STREET MILEAGE UNDER STATE AND LOCAL GOVERNMENT CONTROL BY TYPE OF SYSTEM, 1967

System	Number of Miles (000)
Under State Control:	
State primary systems	424
State secondary systems	112
County roads under State control	139
Rural mileage	675
Municipal extensions of State primary systems	54
Municipal extensions of State secondary systems	14
Municipal mileage	68
Total under State control[1]	743
Under Local Control:	
County roads	1,729
Town and township roads	516
Other local	76
Rural mileage	2,321
Local city streets (municipal mileage)	453
Total under local control	2,774
Total Mileage[1]	3,517

[1] Excludes roads in State parks, forests, reservations, etc.

Source: U.S. Bureau of Public Roads, *Highway Statistics, 1967*, Table M-2.

In addition to administering the State primary system, which is entirely rural except for the urban extensions, and handling the construction of the interstate system (also predominately rural), many of the States have been taking increasingly direct responsibility for construction and maintenance of secondary roads. State roadbuilding in urban areas, however, has been confined to the costly urban extensions to the State primary and interstate systems. While State highway departments rarely build or repair a city street not on the State system, States are heavily involved in the farm-to-market roads of counties and rural townships. Gradually, however, the States have been increasing their share of urban street financing–from 74 percent in 1967 to an estimated 76 percent for 1969.

Presently about one-fifth of the total road and street mileage in the United States is administered by the State highway agencies (table 27). This includes a little over 500,000 miles in the State primary and secondary systems, about 140,000 miles of county roads under State control and almost 70,000 miles of municipal extensions of State primary and secondary systems. This leaves 2,320,000 miles of (mainly) rural roads and 450,000 of city streets under local control.

How much of this vast amount of developed and undeveloped mileage should be taken over by State highway departments, how much of the mileage now controlled by townships should be taken over by counties, and how much of the mileage in urban areas should be assigned to groups of counties and municipalities in metropolitan areas are as yet unresolved questions. Economic considerations of efficiency and local fiscal ability must be balanced against political considerations of "home rule." In some States, for example, townships still exist for the sole purpose of maintaining rural roads. Close legislative examination might well indicate that transfer of responsibility for such roads to the counties would result in more effective road management. Those States that assumed control of all county roads (mainly to help the counties out of a depression situation in the 1930's) may find it propitious to return portions to the counties.

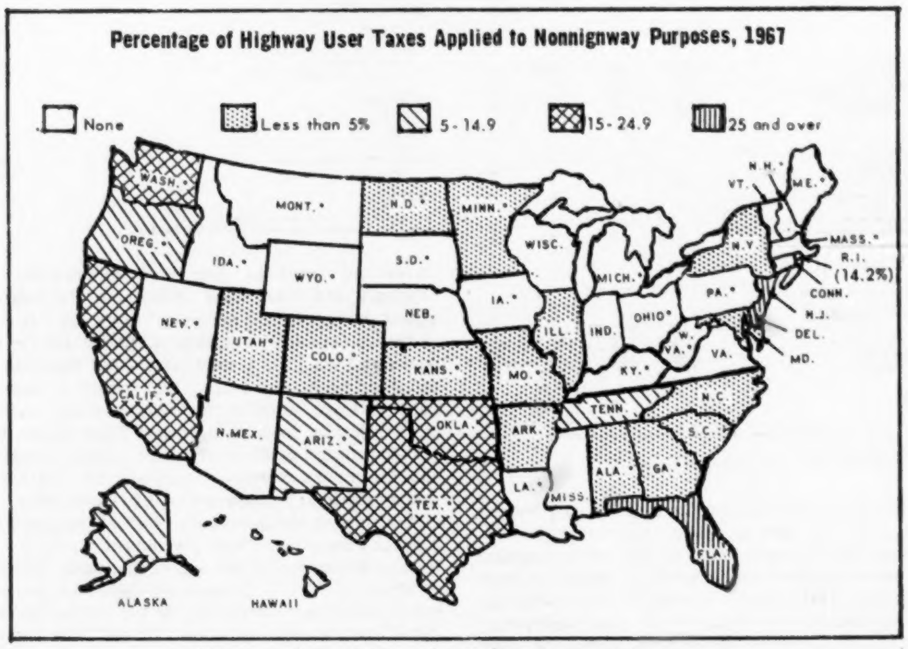
Determining the allocation of highway responsibility between a State and its local government requires a functional classification of the highway network. Although no standard highway classification framework presently exists, one is being developed by the Federal Highway Administration in cooperation with the State highway departments. When completed (a report is due to Congress early in 1970), the national classification should provide a workable basis for States to assume or to share their responsibility for administering highways, roads and streets.

EARMARKING STATE HIGHWAY-USER REVENUE: THE "ANTI-DIVERSION ISSUE"

Highway-user revenues–motor fuel taxes, automobile registration fees, truck licenses and the like–are dedicated to highway purposes in most States. Twenty-eight States have seared into their constitutions the requirement that receipts from all or some of those sources must be placed in a special highway fund–the so-called "anti-diversion amendments." Most of the other States have statutory earmarking of highway-user funds. The champions of anti-diversion, however, have not scored a complete victory. Alaska, Delaware, New Jersey, New York, and Rhode Island place all their motor fuel tax and motor vehicle registration revenues into general funds, thereby subjecting these funds to the same legisla-

FIGURE 20

SOME STATES DIVERT CONSIDERABLE PORTIONS OF HIGHWAY TAXES


Percentage of Highway User Taxes Applied to Nonnignway Purposes, 1967
☐ None
▨ Less than 5%
▧ 5-14.9
▩ 15-24.9
▥ 25 and over
WASH.*
OREG.*
CALIF.*
NEV.*
IDA.*
MONT.*
WYO.*
UTAH*
COLO.*
ARIZ.*
N.MEX.
N.D.*
S.D.*
NEB.
KANS.*
OKLA.
TEX.*
MINN.*
IA.*
MO.*
ARK.
LA.*
WISC.
ILL.
MISS.
MICH.*
IND.
OHIO*
KY.*
TENN.
ALA.
GA.
FLA.
S.C.
N.C.
VA.
W.VA.*
PA.*
N.Y.
VT.
N.H.*
ME.*
MASS.*
R.I.
(14.2%)
CONN.
N.J.
DEL.
MD.
ALASKA
HAWAII

* States with constitutional anti-diversion provisions.

Source: Table A-26.

tive appropriation process as other general fund revenues.

Less than 10 percent of the $7.5 million of State motor fuel tax and motor vehicle registration fees available for distribution (after payment of collection and administration costs) went for non-highway purposes in 1967 (figure 20 and table A-26). The five States that provide for general fund appropriations accounted for 20 percent of the $640 million so diverted. California, Florida, Texas and Washington accounted for most of the remainder. Twelve of the 28 States with anti-diversion constitutional provisions (including California, Texas and Washington) spent some highway-user revenues for nonhighway purposes, although aside from the three States mentioned above, the amounts were nominal.

The pressure for earmarking highway-user revenue came, understandably, from motor vehicle owners who believed that this was the only way to assure the development of a good road system. As the use of the automobile increased by leaps and bounds, the demand for earmarking became almost irresistable. These pressures had their effect—the "dedicated" funds helped underwrite the cost of constructing and maintaining the most extensive (and expensive) highway network in the world.

Most of the State anti-diversion constitutional amendments were adopted after enactment of the Hayden-Cartwright Act of 1934. Section 12 of that Act, still in the Federal statutes, argues strongly against diversion:

> Since it is unfair and unjust to tax motor-vehicle transportation unless the proceeds of such taxation are applied to the construction, improvement, or maintenance of highways, after June 30, 1935, Federal aid for highway construction shall be extended only to those States that use at least the amounts provided by law on June 18, 1934, for such purposes in each State from State motor vehicle registration fees, licenses, gasoline taxes, and other special taxes on motor-vehicle owners and operators of all kinds for the construction, improvement, and maintenance of highways and administrative expenses in connection therewith, including the retirement of bonds for the payment

> of which such revenues have been pledged, and for no other purposes, under such regulations as the Secretary of Commerce shall promulgate from time to time.[8]

Because the penalty for diversion under this provision is still based on the situation as it existed in 1934, it is no longer of consequence. No State now spends less on highways than it applied to that function from highway-user funds in 1934. The last penalty was imposed in 1940.[9] Yet, this Act continues to hold the Federal Government to the principle of anti-diversion. Interestingly enough, the Federal Government did not apply this principle to its own highway program until 1956, and then only in part, when Congress enacted the Highway Revenue Act creating a Federal Highway Trust Fund. To that fund accrue most Federal highway-user revenues with one notable exception–the excise tax on automobiles. That tax, which yields annually some $1.5 billion–about one-third the total revenue of the Highway Trust Fund–is used for general purposes.*

While there has been limited diversion of highway-user funds to nonhighway purposes, there has been considerable "diversion" of general revenue funds to highway purposes. Of the $3 billion-plus that local governments spent for highways in 1966 from their own revenue sources,** $1.2 billion was financed from property taxes and special assessments, about $1 billion from general fund appropriations, and approximately $650 million from borrowings.[10] Local governments obtained only minor amounts of revenue from local highway imposts.

The fact that local governments spend considerable amounts of nonhighway user taxes to build and maintain streets and roads is recognition of the fact that the general taxpayer benefits from highway programs. By the same token there are spillover social costs that can be attributed to the highway program–for example, those involving the displacement of houses and businesses. These costs and the complex highway and mass transit needs of an urban society call for a broadened application of highway-user funds to transportation purposes in addition to the construction and maintenance of streets and roads. The mass transit problem is discussed in the next chapter.***

Footnotes

[1] *Urban Roads*, Hearings Before the Subcommittee on Roads of the Committee on Public Works, U.S. Senate, 90th Congress, 1st Session, Part I, p. 153.

[2] Burch, Philip H., Jr., *Highway Revenue and Expenditure Policy in the United States* (Rutgers University Press, New Brunswick: 1962), p. 125.

[3] *Ibid.*, p. 175.

[4] U.S. Senate Committee on Public Works, *1968 National Highway Needs Report*, 90th Congress, 2nd Session, (U.S. Government Printing Office, Washington: 1968), p. 5.

[5] *Alabama Laws*, Act No. 224, Special Session, 1967.

[6] U.S. Bureau of Public Roads, *Highway Statistics 1967*, Table MF-3.

[7] U.S. Bureau of Public Roads, *Highway Statistics 1966*, Table M-1.

[8] 23 U.S.C.A. 126(a).

[9] Burch, *op. cit.*, p. 74.

[10] U.S. Bureau of Public Roads, *Highway Statistics 1967*, Tables LF-1 and 2, and UF-1 and 2.

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*There is currently (in 1969) an Administration proposal for placing part of the proceeds from this tax in an "Urban Public Transportation Trust Fund."

**Including debt service and administrative costs as well as construction and maintenance.

***See also Chapter II, pp.

TABLE A-22—STATE AND LOCAL EXPENDITURE FOR HIGHWAYS, BY GOVERNMENTAL SOURCE OF FINANCING, BY STATE, 1967
(Dollar amounts in millions)

State	Total expenditure								Exp. from own sources		
	Amount	% financed from—			State expenditure		Local direct exp.		Amount	% financed from—	
		Fed. aid	State funds	Local funds	Direct[1]	Intergovernmental	Amount	% Financed from State aid		State funds	Local funds
United States	$13,996.8	28.1	50.2	20.7	$8,422.0	$1,861.5	$4,533.0	41.1	[illegible]	70.8	29.2
Alabama	225.9	37.6	47.9	14.5	155.9	39.9	70.0	57.0	140.9	76.8	23.2
Alaska	118.2	82.3	15.1	2.6	116.1	—	3.1	—	21.1	85.3	14.7
Arizona	164.3	48.8	43.3	7.9	134.1	19.8	30.2	62.8	84.2	84.6	15.4
Arkansas	133.5	38.6	56.4	5.0	101.9	25.1	31.7	79.2	82.0	91.8	8.2
California	1,337.5	26.2	52.8	20.9	831.2	274.4	606.3	54.2	986.5	71.6	28.4
Colorado	147.6	32.6	48.3	19.1	96.6	23.8	51.3	46.4	99.7	71.7	28.3
Connecticut	201.8	25.2	50.3	24.5	169.2	6.8	52.8	11.4	150.9	67.3	32.7
Delaware	69.9	21.6	36.5	41.9	38.5	2.1	31.4	6.7	54.8	46.5	53.5
Dist. of Columbia	51.8	45.3	—	54.7	—	—	51.8	—	28.2	—	100.0
Florida	438.2	18.2	47.0	34.8	288.7	17.2	169.6	10.1	358.4	57.5	42.5
Georgia	288.8	39.8	48.1	12.1	178.4	49.8	89.7	81.5	168.6	79.9	20.1
Hawaii	56.7	41.3	31.4	27.3	41.2		15.5	—	33.3	53.5	46.5
Idaho	62.7	38.6	47.7	13.7	44.9	10.8	17.8	56.2	38.5	77.7	22.3
Illinois	587.0	24.9	54.8	20.3	329.6	140.7	257.4	57.0	440.7	[illegible]	27.0
Indiana	288.7	34.0	58.4	7.6	189.6	78.9	100.1	78.8	187.7	88.5	11.5
Iowa	297.5	20.1	55.8	24.1	169.7	63.9	127.8	50.0	237.6	69.8	30.2
Kansas	183.0	21.6	39.2	39.2	108.3	14.0	74.7	18.7	143.5	50.0	50.0
Kentucky	273.1	34.1	59.8	6.2	253.5	2.8	18.7	14.2	180.1	90.6	9.4
Louisiana	319.7	27.8	57.0	16.0	253.8	22.5	65.8	34.2	223.3	78.1	21.9
Maine	87.9	28.7	44.2	27.1	63.1	3.1	24.8	12.5	64.4	63.0	37.0
Maryland	211.5	19.1	64.3	16.5	133.6	46.6	77.9	59.8	171.1	79.5	20.5
Massachusetts	274.2	30.7	34.9	34.4	164.7	15.2	109.4	13.9	190.0	50.3	49.7
Michigan	509.5	31.3	54.5	14.2	286.6	164.9	220.9	74.8	347.8	79.4	20.6
Minnesota	343.5	28.8	42.7	28.4	202.3	51.5	141.1	36.5	244.4	60.1	39.9
Mississippi	162.4	40.6	42.2	17.2	106.9	31.7	55.5	57.1	98.4	71.1	28.9
Missouri	279.0	36.4	45.6	18.0	210.7	19.8	68.2	29.0	177.5	71.7	28.3
Montana	95.9	53.1	27.9	19.0	77.5	0.2	18.4	1.1	45.0	59.6	40.4
Nebraska	137.3	35.0	41.9	23.2	88.1	21.1	49.2	42.9	89.3	64.4	35.6
Nevada	66.6	64.3	16.7	19.1	48.8	5.1	17.8	28.7	23.8	46.6	53.4
New Hampshire	57.1	27.1	51.0	21.9	45.0	0.4	12.1	3.3	41.6	70.0	30.0
New Jersey	398.0	26.1	36.5	37.4	243.7	15.9	154.3	10.3	294.1	49.4	50.6
New Mexico	94.9	58.3	34.4	7.4	82.3	6.9	12.6	46.8	39.6	82.3	17.7
New York	1,060.0	16.6	52.7	30.5	617.1	118.9	441.9	27.1	880.7	63.3	36.7
North Carolina	277.9	21.0	69.4	9.6	242.2	0.3	34.8	26.7	218.9	87.8	12.2
North Dakota	79.2	34.7	37.5	27.8	51.3	0.0	27.9	32.3	51.7	57.4	42.6
Ohio	708.7	28.9	56.6	14.5	487.4	161.1	340.3	64.6	502.4	79.6	20.4
Oklahoma	178.1	29.0	61.4	10.6	116.7	45.6	61.3	74.7	126.1	85.3	14.7
Oregon	183.7	29.2	58.1	12.7	122.5	38.6	61.2	63.1	130.1	82.0	18.0
Pennsylvania	718.3	27.1	60.1	12.8	570.4	64.4	147.9	43.5	523.8	82.4	17.6
Rhode Island	78.0	18.3	66.0	15.6	65.4	0.4	12.6	3.2	63.7	80.8	19.2
South Carolina	127.8	30.2	62.0	7.8	109.2	9.7	18.3	50.3	89.0	88.9	11.1
South Dakota	87.1	39.9	34.9	25.1	63.7	2.4	23.4	10.3	53.1	57.3	42.7
Tennessee	286.1	34.7	46.0	19.3	180.5	51.8	95.6	54.2	186.7	70.4	29.6
Texas	785.5	25.9	46.6	27.6	570.4	7.8	215.1	3.5	581.5	62.7	37.3
Utah	86.2	58.8	31.7	9.5	75.4	5.5	12.9	42.6	35.5	78.9	21.1
Vermont	66.9	38.0	52.0	10.0	56.6	5.0	11.3	44.2	41.5	83.9	16.1
Virginia	363.6	33.7	53.8	12.5	304.0	16.7	59.6	28.0	241.2	81.1	18.9
Washington	312.7	28.8	55.9	15.3	230.8	41.8	81.8	51.1	222.7	78.5	21.5
West Virginia	183.2	40.3	56.1	3.6	176.6	—	6.6	—	109.4	94.0	6.0
Wisconsin	360.8	13.7	35.7	50.6	116.9	92.4	244.0	37.9	311.5	41.3	58.7
Wyoming	69.9	51.8	41.4	6.8	62.0	2.8	6.9	40.8	33.2	85.8	14.2

[1] All federal aid highway funds assumed to be spent directly by the State government (except in the District of Columbia).
Source: Compiled by ACIR staff from various reports of the Governments Division, U.S. Bureau of the Census.

TABLE A-23—STATE ALLOCATION OF MOTOR FUEL TAXES TO LOCAL GOVERNMENTS, JAN. 1, 1969

State	Rate, 1/1/69 (cents per gal.)	Collections F.Y. 1968 (millions)	Percent of collections[1] allocated to—		Allocation factors	
			Counties	Municipalities	Counties	Municipalities
Alabama	7	$102.7	50%	5%	Equal shares and population	Population
Alaska	8	7.8	—	—	—	—
Arizona	7	62.7	27[2]	11	Motor fuel sales	Population
Arkansas[3]	7 1/2	95.5	15	15	Area, motor vehicle registration, pop. and equal shares	Population
California	7	580.7	23[4]	10[4]	Equal shares, mileage, m.v. reg.	Population etc.
Colorado[3]	6	62.1	25	9	M.V. reg. and mileage	M.V. reg. and mileage
Connecticut	7	75.9	Amounts appropriated (towns only)		Mileage and population (towns only)	
Delaware	7	18.4	—	14[5]	—	Pop. and mileage
Florida	7	188.5	9	—	Area, pop., contributions to State roads prior to 1931 and motor fuel sales	—
Georgia	6 1/2	131.3	Amounts appropriated		Mileage, and amounts specified by statutes	Population
Hawaii	5	14.7	—	—	—	—
Idaho	7	21.7	26	4	Equal shares, m.v. reg. and mileage	Population

Table A-23 (cont'd)

State	Rate, 1/1/68 (cents per gal.)	Collections F.Y. 1968 (millions)	Percent of collections[1] allocated to– Counties	Municipalities	Allocation factors Counties	Municipalities
Illinois	6	226.4	30	25	M.V. reg., pop. and mileage	Population
Indiana	6	137.1	32	15	Equal shares, mileage and m.v. reg.	Population
Iowa	7	98.1	34	11	Highway needs and area	Population
Kansas[3]	5	64.4	(6)	(6)	Equal shares, assessed valuation and mileage	Population
Kentucky	7	$ 91.9	—	—	—	—
Louisiana	7	85.3	14[7]	—	Motor fuel sales	—
Maine[3]	7	29.5	Amounts appropriated (towns only)		Unimproved road mileage (towns only)	
Maryland	7	97.2	20[8]	20[9]	Mileage and m.v. reg.	Mileage and m.v. reg.
Massachusetts[3]	6 1/2	121.8	Amounts appropriated (counties and towns)		Pop., mileage and area	Mileage (only towns with less than $5 million assessed value)
Michigan[10]	7	215.6	34[11]	20[11]	Mileage, M.V. reg, pop. and equal shares	Pop. and mileage
Minnesota[3]	7	109.1	29[12]	9[12]	Equal shares, M.V. reg., mileage and est. highway needs	Pop. and est. street needs
Mississippi	7	88.5	29[13]	[13]	Equal shares, pop. and area	Population
Missouri	5	101.1	5[14]	15[14]	Mileage and rural land valuation	Population
Montana	6 1/2	24.8	—	—	—	—
Nebraska	7 1/2	53.3	37[15]	5[16]	Statutory percentages	Population
Nevada[17]	6	18.8	25[17]	(17)	Area, pop., mileage and assessed value (1/2 cent tax)[17]	Assessed Value[17]
New Hampshire[3]	7	19.7	Amounts appropriated (cities and towns)		Mileage and assessed valuation (cities and towns)	
New Jersey	7	156.1	Amounts appropriated		Area, pop., mileage and equal shares	Pop., mileage and expenditure
New Mexico	7	29.3	1[18]	13[18]	Motor fuel sales	Motor fuel sales
New York	7	$291.8	10	10[19]	Mileage	New York City only
North Carolina	7	147.1	—	8	—	Pop. and mileage
North Dakota	6	18.6	27[20]	10[20]	M.V. registrations	Population
Ohio	7	286.2	14[21]	11	Equal shares	M.V. reg.
Oklahoma	6 1/2	80.7	37[22]	3[22]	Area, pop. and mileage	Population
Oregon[23]	7	50.3	20	12	M.V. reg.	Population[24]
Pennsylvania	7	281.1	7	16[25]	(26)	Mileage and pop.
Rhode Island	8	22.0	—	1		Mileage (maximum $10,000 to any city or town
South Carolina	7	75.8	28[27]	—	Area, pop., mileage and m.v. reg.[28]	—
South Dakota	6	18.6	13	—	Mileage, m.v. reg., and assessed value	—
Tennessee	7	113.2	29	14	Equal shares, area and pop.	Population
Texas[29]	5	204.3	Amounts appro.	—	Area, pop. and mileage	—
Utah	6	28.5	—	—	—	
Vermont	8	12.1	—	Amounts appropriated (towns only)	—	Mileage (towns)
Virginia	7	130.6	—	Amounts appropriated	(30)	Mileage
Washington	9	128.8	25	14	Equal shares, m.v. reg. and highway "needs"	Population
West Virginia[31]	7	44.3				
Wisconsin	7	115.4	—	Amount appropriated[32]	M.V. reg. and mileage	M.V. reg., mileage and expenditure
Wyoming	6	14.2	25	6	Area, pop. and assessed valuation	Population

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Note: Does not reflect allocations to State highway agencies for expenditure by them on county roads and city streets.

[1] Generally after certain deductions (e.g. refunds, administration cost, etc.)

[2] About 7% redistributed to cities within each county in proportion to population.

[3] Combination of motor fuel and vehicle registrations.

[4] Additional 15% apportioned to cities and counties by State Controller.

[5] Equivalent of 1cent/gal., but not to exceed $2 million.

[6] $3.6 million per year apportioned to counties: 40% equally and 60% on basis of assessed valuation for previous years; not less than 50% to be used on township roads. 1/6 of total receipts, after refunds and deduction of 2% for administration and collection transferred to special county road and city street fund for redistribution as follows: $2.5 million to city streets and alley fund based on population: $4 million to county secondary funds based on mileage, and residue distributed 50% to cities and 50% to counties on same basis.

[7] Includes city of New Orleans.

[8] After cost of collection, administration, refunds, and $400,00 for improvement of waterways and facilities. Allocation factor–1/2 based on county mileage, 1/2 on county M/V registration. Each county must in turn share its portion with the municipalities in the county as follows: 1/2 based on county mileage within the municipalities and 1/2 based on county's total motor vehicles registered in municipalities. Each municipality's share will be 50% of this calculation. State Roads Commission retains the funds and constructs and maintains County roads in six counties.

[9] City of Baltimore. Twenty percent of receipts after deductions indicated in footnote eight.

[10] Combination of motor fuel, motor-vehicle, and motor-carrier taxes.

[11] After deduction of $3.5 million for Mackinac Bridge Authority and 1 1/2 percent of gasoline tax collections for State waterways commission.

[12] After deduction of 3/4 of 1 percent or $500 thousand whichever is the lesser, for the conservation department, plus certain other deductions.

[13] Includes an amount for cities. Cities received $1 million from the State's share (8/14) of motor fuel taxes and a share of each county's, 6/14 of motor fuel taxes computed as 1/12 of the product of the total population of all incorporated municipalities times 75 cents; but no municipality may receive more than $55,000 from both the State's and the county's share.

[14] Plus reimbursement to counties and other political subdivisions (except incorporated cities and towns) for money expended by them in construction and acquisition of roads and bridges later taken over by the State.

[15] Includes 22% for grade crossing protectionwhich is redistributed in part to cities and villages on the basis of population: 2,500 or less, 10 cents per capita; 2,501 to 25,000, 15 cents per capita; 25,001 to 200,000, 40 percent of county's share; and more than 200,000, 75 percent of county's share.

[16] Plus an additional amount for grade crossing protection; see footnote [15].

[17] One and one-half cents of six cents tax of which 1 cent is an optional tax that is returned to the county of origin and may be declined by resolution of the county governing board (none has done so). Each county's 1 cent tax is apportioned between the county and incorporated cities within the county on the basis of assessed value. In addition, counties with a population of 25,000 or more that have adopted a streets and highways plan embracing more than one municipal corporation may levy a one cent (one or two cents, effective 7/1/69) per gallon tax on motor vehicle fuel sold in the county to finance such a plan. To date, three counties have adopted a one cent tax, which is in addition to State motor fuel taxes and is administered by the State.

[18] For general county and municipal purposes. Amount to municipalities includes "H Class" counties.

[19] New York City only.

[20] Percentage of common fund which includes motor fuel and special fuel excise tax, and motor vehicle and motor carrier revenues. Counties to retain 73% of revenues; however, no county to receive less than fiscal year 1965 amount. Remainder (27 percent or less) distributed to incorporated cities on population basis.

[21] Five of fourteen percent distributed to counties to be paid to townships for construction and maintenance of roads. County may expend such funds at option of township. County engineer must approve plans and specifications.

[22] After distributions of 3% for collection and administration, and 97% of 97 1/2% of the tax on all fuels consumed on Oklahoma Turnpike (maximum $3 million annually) to make up any deficiencies in monies for payment of interest on turnpike bonds.

[23] Combination of motor-fuel, motor-vehicle, and motor-carrier taxes and and fees.

[24] In cities over 100,000 percentage of population enters into the calculation. For the calendar year 1968, the figure is 88 percent and will increase by 4 percent a year until reaching 100 percent in 1971.

[25] Minimum of $20 million per calendar year to cities, boroughs, towns and townships.

[26] Distributed to counties in proportion to the amount received by the counties based upon the 1929, 1930, and 1931 ratio. As a county, Philadelphia receives a share of these funds. For 1967 the counties (other than Philadelphia) made grants to municipalities totaling 37 percent of these funds, on a formula basis of 50 percent on mileage and 50 percent on population.

Footnotes continued on next page

TABLE A-24—STATE HIGHWAY AID, BY TYPE OF RECEIVING GOVERNMENT, BY STATE FISCAL YEARS 1962 AND 1967

State	Total 1967 Amount (000,000)	Total 1967 Per capita	Counties 1967	Counties 1962	Municipalities 1967	Municipalities 1962	Townships 1967	Townships 1962	Special districts 1967	Special districts 1962
United States	$1,861.5	9.45	59.2	62.6	33.0	30.3	6.4	7.0	1.4	*
Alabama	39.8	11.29	99.1	99.8	0.9	0.2	—	—	—	—
Alaska										—
Arizona	18.9	11.61	72.5	66.7	27.5	33.3	—	—	—	—
Arkansas	25.1	12.73	53.7	66.9	46.3	33.1	—	—	—	—
California	274.4	14.32	61.0	70.1	38.3	29.9	—	—	0.7	—
Colorado	23.8	12.04	71.4	73.1	28.6	26.9	—	—	—	—
Connecticut	4.6	1.54	—	—	2.5	—	97.5	100.0	—	—
Delaware	2.1	3.93	2.6	9.6	97.4	90.4	—	—	—	—
Florida	17.2	2.87	100.0	100.0	—	—	—	—	—	—
Georgia	48.6	11.00	67.6	94.8	32.4	5.2	—	—	—	—
Hawaii										
Idaho	10.0	14.32	86.3	91.8	13.7	8.2	—	—	—	—
Illinois	146.7	13.47	39.6	32.0	48.1	56.1	12.3	11.9	—	—
Indiana	78.9	15.78	68.1	68.1	31.9	31.9	—	—	—	—
Iowa	63.8	23.20	69.7	72.6	30.3	27.4	—	—	—	—
Kansas	14.0	6.15	64.1	65.2	28.4	27.0	7.6	7.8	—	—
Kentucky	2.8	.88	99.9	88.6	0.1	11.4	—	—	—	—
Louisiana	22.5	6.16	88.0	86.6	12.0	13.4	—	—	—	—
Maine	3.1	3.18	10.1	10.0	8.9	8.9	81.0	81.1	—	—
Maryland	46.6	12.63	33.9	30.7	66.1	69.3	—	—	—	—
Massachusetts	15.2	2.81	—	—	45.0	58.4	55.0	41.6	—	—
Michigan	164.9	19.21	64.7	64.6	34.5	34.7	0.8	0.7	—	—
Minnesota	51.5	14.37	77.8	78.4	22.2	21.6	—	—	—	—
Mississippi	31.7	13.51	97.7	94.1	2.3	5.9	—	—	—	—
Missouri	19.8	4.30	24.3	74.0	75.7	26.0	—	—	—	—
Montana	.2[1]	.29	—	—	100.0	—	—	—	—	—
Nebraska	21.1	14.88	87.6	100.0	12.4	—	—	—	—	—
Nevada	5.1	11.53	100.0	100.0	—	—	—	—	—	—
New Hampshire	.5	.74	—	—	—	—	100.0	100.0	—	—
New Jersey	15.8	2.27	58.6	61.0	40.5	25.7	—	12.4	0.9	0.9
New Mexico	5.9	5.84	66.0	63.4	34.0	36.6	—	—	—	—
New York	119.8	6.54	61.2	62.3	28.2	25.2	10.7	12.5	—	—
North Carolina	9.3	1.85	—	—	100.0	100.0	—	—	—	—
North Dakota	9.0	14.08	84.1	96.0	15.9	4.0	—	—	—	—
Ohio	161.1	15.40	52.0	58.2	36.8	30.6	11.2	11.2	—	—
Oklahoma	45.8	18.34	87.7	87.9	12.3	12.1	—	—	—	—
Oregon	38.6	18.32	79.2	76.4	20.8	23.6	—	—	—	—
Pennsylvania	64.6	5.54	25.4	27.2	30.8	30.7	43.8	42.1	—	—
Rhode Island	.4	.43	—	—	—	—	100.0	100.0	—	—
South Carolina	8.7	3.73	100.0	100.0	—	—	—	—	—	—
South Dakota	2.4	3.52	100.0	100.0	—	—	—	—	—	—
Tennessee	51.8	13.32	68.2	66.7	31.8	33.3	—	—	—	—
Texas	7.6	.70	100.0	100.0	—	—	—	—	—	—
Utah	5.5	5.37	58.1	69.1	41.9	30.9	—	—	—	—
Vermont	6.0	12.06	—	—	10.0	2.3	90.0	97.7	—	—
Virginia	16.7	3.68	21.3	22.1	78.7	77.9	—	—		—
Washington	41.7	13.52	62.5	61.8	37.5	38.2	—	—		—
West Virginia	—	—	—	—	—	—	—	—		—
Wisconsin	92.4	22.06	55.9	54.8	24.3	24.4	19.7	20.8		—
Wyoming	2.8	8.84	77.4	77.7	22.6	22.3	—	—		—

*Less than 0.05 percent

[1] Represents a refund item.

Source: U.S. Bureau of the Census, *State Government Finances*, 1967 and Census of Governments, 1967, Vol. 6, No. 4, *State Payments to Local Governments*.

TABLE A-25—STATE AID FOR LOCAL RURAL AND URBAN ROADS AND STREETS, BY STATE, CALENDAR YEARS 1962 AND 1967

(Dollar amounts in thousands)

State	1967 Total	1967 For counties and townships (rural roads)	1967 For municipalities (urban streets) Amount	1967 For municipalities (urban streets) % of total	1962 Total	1962 For counties and townships (rural roads)	1962 For municipalities (urban streets) Amount	1962 For municipalities (urban streets) % of total
United States	$1,868,645	$1,199,923	$668,722	35.8	$1,316,238	$922,467	$393,771	29.9
Alabama	39,655	36,577	3,078	7.8	32,353	30,002	2,351	7.3
Alaska								
Arizona	19,430	10,787	8,643	44.5	8,878	5,995	2,883	32.5
Arkansas	27,004	13,827	13,177	48.8	13,617	9,039	4,578	33.6
California	301,848	156,834	145,014	48.0	150,316	101,383	48,933	32.6
Colorado	26,906	19,430	7,476	27.8	20,916	15,045	5,871	28.1
Connecticut	12,246	4,266	7,980	65.2	8,932	3,126	5,806	65.0
Delaware	2,000	—	2,000	100.0	1,204	—	1,204	100.0
Florida	18,136	18,083	53	.3	15,038	15,038	—	—
Georgia	18,754	9,422	9,332	49.8	10,416	9,416	1,000	9.6
Hawaii	8,897	8,897	—	—	5,316	5,316	—	—
Idaho	10,479	9,056	1,423	13.6	8,634	7,924	710	8.2
Illinois	169,120	93,838	75,282	44.5	88,328	44,504	43,824	49.6
Indiana	79,454	54,038	25,416	32.0	65,223	44,390	20,833	31.9
Iowa	62,135	42,389	19,746	31.8	47,938	32,911	15,027	31.3
Kansas	8,533	3,625	4,908	57.5	7,569	3,668	3,901	51.5
Kentucky	3,298	3,298	—	—	2,217	2,217	—	—
Louisiana	19,554	17,823	1,731	8.9	14,382	13,003	1,379	9.6
Maine	2,608	2,073	535	20.5	2,895	2,039	856	29.6
Maryland	43,540	14,086	29,454	67.6	37,452	14,925	22,527	60.1
Massachusetts	14,569	8,922	5,647	38.8	9,350	6,850	2,500	26.7
Michigan	141,066	94,290	46,776	33.2	111,130	74,672	36,458	32.8
Minnesota	42,892	30,833	12,059	28.1	31,434	23,548	7,886	25.1

Footnotes for Table A-23 (Cont'd)

[27] Plus an amount equal to one-half of one percent on 5 cents of the gasoline tax distributed to counties on basis of watercraft registered in each county. If not used for this purpose, revenue shall accrue to the respective county's Class C highway fund account.

[28] One-half of county share apportioned among counties as follows: 1/3 area; 1/3 population, and 1/3 rural mileage. The remaining one-half of county share is distributed on the basis of M/V registration fees with maximum and minimum share adjustments.

[29] About one-fourth of the motor fuel tax collections is placed in the available school fund for distribution to school districts.

[30] To Arlington and Henrico Counties, which receive a percentage of the motor fuel tax based on a 1932 formula updated to reflect current tax collections in each county. All other counties have elected to place their roads under State control.

[31] Combined motor fuel and certain motor-vehicle revenues.

[32] From 4 cents of the 7 cents tax (including the equivalent of 11% of commercial registration fees and 20% of other registration fees distributed to towns, cities, and villages for general purpose use). After these appropriations, 42% of the remainder of the 4 cents is distributed to towns, cities, and villages, and 18% to counties. In addition 23 1/3% of the remaining 3 cents tax is distributed to towns, cities, and villages, and 10% to counties.

Source: Federal Highway Administration, Bureau of Public Roads, Table MF-100, effective Jan. 1, 1969. Motor fuel tax collection data from U.S. Bureau of the Census, *State Tax Collections, 1968*.

Table A-25 (cont'd)

State	1967 Total	1967 For counties and townships (rural roads)	1967 For municipalities (urban streets) Amount	1967 For municipalities (urban streets) % of total	1962 Total	1962 For counties and townships (rural roads)	1962 For municipalities (urban streets) Amount	1962 For municipalities (urban streets) % of total
United States	$1,869,645	$1,190,923	$688,722	36.8	$1,316,238	$922,467	$393,771	29.9
Mississippi	33,093	31,707	1,386	4.2	29,021	27,546	1,475	5.1
Missouri	19,848	4,811	15,037	76.5	9,449	2,292	7,157	75.7
Montana	4,782	4,413	369	7.7	4,100	4,040	60	1.5
Nebraska	29,894	22,354	7,640	25.5	22,432	18,408	4,024	17.9
Nevada	5,189	3,488	1,701	32.8	2,659	1,747	912	34.3
New Hampshire	250	249	1	.4	200	200	—	—
New Jersey	15,243	10,960	4,283	28.1	16,244	11,374	4,870	30.0
New Mexico	5,425	4,355	1,070	19.7	4,065	3,202	853	21.0
New York	117,145	70,934	46,211	39.4	71,486	59,121	12,365	17.3
North Carolina	9,959	—	9,959	100.0	7,641	—	7,641	100.0
North Dakota	12,121	10,523	1,598	13.2	7,926	7,482	444	5.6
Ohio	165,131	112,305	52,826	32.0	138,709	94,726	43,983	31.7
Oklahoma	46,612	40,976	5,636	12.1	37,125	32,665	4,460	12.0
Oregon	38,654	30,285	8,369	21.7	28,029	21,765	6,264	22.3
Pennsylvania	52,900	33,478	19,422	36.7	53,068	33,719	19,339	36.4
Rhode Island	386	86	300	77.7	423	122	301	71.2
South Carolina	9,674	9,674	—	—	7,482	7,482	—	—
South Dakota	8,021	7,346	675	8.4	7,406	6,784	622	8.4
Tennessee	47,339	30,431	16,908	35.7	35,789	23,867	11,922	33.3
Texas	38,250	38,250	—	—	35,711	35,711	—	—
Utah	4,651	2,916	1,735	37.3	3,812	2,427	1,385	36.3
Vermont	4,983	4,983		—	4,434	4,089	345	7.8
Virginia	16,711	1,770	14,941	89.4	11,475	1,350	10,125	88.2
Washington	48,746	32,468	16,278	33.4	32,537	21,009	11,528	35.4
West Virginia	—	—	—	—	—	—	—	—
Wisconsin	59,463	37,430	22,033	37.1	48,249	33,613	14,636	30.3
Wyoming	2,978	2,334	644	21.6	2,630	2,066	564	21.6

Source: U.S. Department of Commerce, Bureau of Public Roads, *Highway Statistics* (1962 and 1967), Table SF-5A.

TABLE A-26—DIVERSION OF STATE HIGHWAY USER TAXES, BY STATE, 1967
(Dollar amounts in millions)

State	Net funds distributed[1] Total	Net funds distributed[1] Motor fuel taxes	Net funds distributed[1] Motor vehicle taxes	Amount for nonhighway purposes: Total Amount	Total % of net	Motor fuel taxes Amount	Motor fuel taxes % of net	Motor vehicle taxes Amount	Motor vehicle taxes % of net
United States	$7,527.0	$4,954.5	$2,572.5	$640.1	8.5%	$196.4	4.0%	$443.7	17.3%
Alabama*	134.1	99.2	25.9	1.6	1.2	.4	.4	1.2	4.6
Alaska	9.7	5.9	3.7	1.1	11.3	—	—	1.1	29.7
Arizona*	69.2	50.7	18.5	—	—	—	—	—	—
Arkansas	94.0	64.7	29.3	2.9	3.0	2.1	3.2	.8	2.7
California*	926.4	551.9	374.4	166.7	18.0	—	—	166.7	44.5
Colorado*	69.9	47.6	22.3	.7	1.0	—	—	.7	3.1
Connecticut	93.9	70.4	23.5	—	—	—	—	—	—
Delaware	24.4	15.8	8.6	—	—	—	—	—	—
Dist. of Col.	22.5	14.2	8.3	5.0	22.2	—	—	5.0	60.2
Florida	287.0	182.1	104.8	100.0	34.8	6.5	3.5	93.6	89.2
Georgia*	151.6	126.0	25.6	.5	.3	—	—	.5	2.0
Hawaii	19.0	10.4	8.6	1.1	5.5	.4	3.8	.7	7.3
Idaho*	31.8	19.4	12.4	—	—	—	—	—	—
Illinois	343.3	205.9	137.4	7.9	2.3	2.7	1.3	5.2	3.8
Indiana	178.8	134.0	44.8	—	—	—	—	—	—
Iowa*	152.5	85.9	66.6	—	—	—	—	—	—
Kansas*	79.3	52.5	26.8	.8	1.0	.8	1.5	—	—
Kentucky*	120.2	88.9	31.3	—	—	—	—	—	—
Louisiana*	105.5	91.5	14.0	—	—	—	—	—	—
Maine*	39.5	27.0	12.4	—	—	—	—	—	—
Maryland	147.4	53.2	94.2	.2	.1	—	—	.2	.4
Massachusetts*	136.9	114.1	22.8	—	—	—	—	—	—
Michigan*	291.7	199.9	83.8	—	—	—	—	—	—
Minnesota*	148.4	95.8	53.6	1.0	.7	.2	.2	.7	1.3
Mississippi	82.9	66.3	16.6	—	—	—	—	—	—
Missouri*	153.7	96.3	57.4	.2	.1	.2	.2	—	—
Montana*	31.9	21.9	10.0	—	—	—	—	—	—
Nebraska	70.2	50.7	19.5	—	—	—	—	—	—
Nevada*	20.4	16.6	3.8	—	—	—	—	—	—
New Hampshire*	29.9	18.9	11.0	—	—	—	—	—	—
New Jersey	240.3	160.9	89.4	109.9	45.7	60.2	45.0	40.8	45.8
New Mexico	45.5	32.8	12.9	3.4	7.5	3.4	10.4	—	—
New York	482.5	276.4	206.1	16.6	3.4	9.4	3.4	7.2	3.5
North Carolina	194.8	144.4	50.4	—	—	—	—	—	—
North Dakota*	30.8	17.1	13.6	.9	2.9	.1	.6	.8	5.9

Table A-26 (Cont'd)

State	Net funds distributed[1]			Amount for nonhighway purposes					
				Total		Motor fuel taxes		Motor vehicle taxes	
	Total	Motor fuel taxes	Motor vehicle taxes	Amount	% of net	Amount	% of net	Amount	% of net
United States	$7,527.0	$4,954.5	$2,572.5	$640.1	8.5%	$196.4	4.0%	$443.7	17.3%
Ohio*	400.2	272.7	127.5	—	—	—	—	—	—
Oklahoma	130.4	78.4	52.0	23.3	17.9	—	—	23.3	44.8
Oregon*	88.8	53.2	35.6	4.8	5.4	2.9	5.5	1.9	5.3
Pennsylvania*	378.0	277.0	100.9	—	—	—	—	—	—
Rhode Island	32.3	21.3	11.0	4.6	14.2	3.1	14.6	1.6	14.5
South Carolina	88.0	75.7	12.3	2.9	3.3	2.7	3.6	.2	1.6
South Dakota*	32.9	18.8	14.4	—	—	—	—	—	—
Tennessee	168.8	124.6	44.3	20.3	12.0	20.3	16.3	—	—
Texas*	462.1	256.6	205.5	112.4	24.3	64.7	25.2	47.8	23.3
Utah*	34.9	26.9	8.0	.1	.3	.1	.4	—	5.0
Vermont	23.7	11.7	12.0	—	—	—	—	—	—
Virginia	189.5	123.2	66.2	—	—	—	—	—	—
Washington*	188.8	112.4	76.4	42.1	22.3	.9	.8	41.2	53.9
West Virginia*	74.7	42.7	32.0	—	—	—	—	—	—
Wisconsin	163.1	110.5	52.7	8.9	5.5	6.3	5.7	2.6	4.9
Wyoming*	19.2	12.7	6.5	—	—	—	—	—	—

*Has a constitutional anti-diversion provision.

[1] After payment of collection and administrative expenses.

Source: U.S. Bureau of Public Roads, *Highway Statistics 1967*, Tables DF, MU-3 and MF-3.

Chapter VI

Financing Urban Development and General Local Government Programs— The State Response

The critical problems of the large central cities in particular have spurred State governments to provide financial assistance for a variety of urban development programs as well as for general local government support. The need for this additional "outside" financing arises, at least in part, from (a) the redistribution of population to urban areas, (b) the use that commuters, visitors and shoppers make of central city facilities and (c) the financial limitations of local governments.

These factors, which both generate additional demands for public services and aggravate the fiscal disparities among jurisdictions in metropolitan areas, require a countervailing flow of financial resources. Either the State or a metropolitan government could perform this counter balancing function. Both levels offer the possibility of making the taxing jurisdiction more commensurate with program benefits—that is, capturing the spillover effects—and opening up the possibility of exploiting tax resources that are not presently utilized because needs in certain localities are not apparent.

Since the formation of metropolitan governments would involve the redistribution of existing fiscal resources among governmental jurisdictions, however, the richer suburban communities perforce can be expected to oppose such governmental arrangements. Nonetheless, metropolitan governments do have the substantial merit of encompassing the geographic scope of program benefits and increased recognition of these interrelationships may serve to reduce some of this opposition. Whatever the political feasibility of metropolitan government, its future is much more promising for those areas located entirely or predominantly in one State, as most in fact are.

Simply because they exist, however, the State governments rather than metropolitan governments appear the more realistic source for providing this additional "outside" finance. States—like areawide jurisdictions—can reduce interlocal fiscal disparities, can capture the spillover effects, and can use the income tax more effectively to finance the needed public services.

URBAN DEVELOPMENT PROGRAMS

There are indications that a considerable number of the industrial States are beginning to recognize their financial responsibility for helping meet the growing physical and social problems of the large cities.

The recent movement toward establishment of State agencies with specific concern for urban affairs is a case in point. There are now 20 States with such agencies, 15 of which have been set up since 1966.[1] Massachusetts and Virginia established local affairs agencies in 1968 and Rhode Island converted its Division of Local and Metropolitan Government to a full-fledged Department of Community Affairs that same year. Although most of these agencies provide only advisory services and technical assistance, a few (for example, Massachusetts, Connecticut, New Jersey and Pennsylvania) are geared to administer substantial financial assistance programs.

The impetus toward State involvement in particular urban problems has come partially from a number of Federal grant programs for community development and partially from an increasing sense of political responsibility on the part of governors and State legislative leaders. As rising price levels and technological advance pushed costs well beyond the capability of local governments to deal with their community development problems from their own resources, city officials have been going in increasing numbers to Washington for help.

The mayors' pleas led Congress to enact a number of grant programs to aid local governments directly, bypassing the States. Three functional areas in which large-scale Federal aid was forthcoming are particularly relevant to community development—mass transportation, housing and urban renewal, and water and sewer facilities including treatment plants. More recently the

Demonstration Cities and Metropolitan Development Act of 1966 (Model Cities) provides, in effect, Federal block grants to cities unrestricted as to function. Federal commitments for this program approach $1 billion in fiscal 1969.

All of these Federal programs require local financial participation and a number of States now "buy into" them in order to relieve localities of part of the non-Federal share. Some States go beyond the Federal programs and provide financial aid for other purposes, such as New York's urban development corporation and New Jersey's recently authorized "meadowlands" program. New Jersey and Pennsylvania now supplement Federal funds under the model cities program, and in some instances are funding such programs in communities that were not able to obtain Federal funds.

By 1967, State financial participation in these functional areas was still minimal. The Bureau of the Census reported less than $150 million of State aid for urban programs, with only a handful of States participating in each (table 28). However, those figures do not reflect a score or more of urban assistance programs enacted by the 1967 and 1968 State legislative sessions. As these new programs become fully operative and more States act, it can be anticipated that the annual State financial stake in this field will grow apace.

TABLE 28–STATE PAYMENTS TO LOCAL GOVERNMENTS FOR SELECTED URBAN TYPE FUNCTIONS, 1967
(Millions of dollars)

State	Total	Housing and urban renewal	Water and sewer	Urban mass transportation
United States	141.1	67.0	26.3	47.8
Alabama	*	*	—	—
California	27.5	—	—	27.5[1]
Connecticut	4.3	4.3	—	—
Delaware	.3	—	.3	—
Hawaii	.2	.2	—	
Maine	.7	—	.7	—
Maryland	1.8	—	1.8	—
Massachusetts	21.5	7.2	2	14.1
New Hampshire	1.8	—	1.8	—
New Jersey	3.5	—	3.5	—
New York	52.1	43.5	8.6	—
Pennsylvania	24.6	11.1[2]	7.3	6.2
Texas	1.8	—	1.8	—
Vermont	1.3	—	1.3	—
Washington	.6	.6		

Note: The States not listed made no aid payments for these functions in 1967.

*Less than $50,000

[1] Excludes payments to cities from the motor vehicle "in lieu" property tax fund ($93.8 million in 1967). Funds are distributed to cities in proportion to population and must be used for law enforcement, fire protection to highway traffic, and rapid transit.

[2] Housing construction in ratio to local expenditure for approved redevelopment projects.

Source: U.S. Bureau of the Census, Census of Governments, 1967, Vol. 6, No. 4, *State Payments to Local Governments*, Table 6.

Urban Mass Transportation

During fiscal 1967, very little State money was made available for urban mass transportation–a total of $48 million accounted for by but three States (Massachusetts, $14.1 million; California, $27.5 million; and Pennsylvania, $6.2 million). By way of contrast, a Federal "precedent" was set with passage of the Housing Act of 1961 and, more significant, the Mass Transportation Act of 1964.[2] The former Act provided for a mass transportation demonstration program, authorizing $25 million for project grants, while the latter authorized $150 million and $175 million for fiscal years 1969 and 1970 respectively.[3] By December 31, 1968 more than 100 capital grants, involving nearly $500 million of Federal funds had been approved.[4]

Despite the limited State financial participation, recent actions indicate that a growing importance is now attached to the problem of urban mass transit. Further State assistance will be forthcoming in New York, where voters approved a $2.5 billion bond issue in 1967, $1 billion of which is specifically set aside for mass transit; in New Jersey, where a $640 million bond issue for highways and mass transportation was authorized; and in Maryland, where the 1969 Legislature authorized State subsidization of the proposed Washington, D.C., subway system and established a Metropolitan Transit Authority to acquire, construct and operate mass transit facilities in the Baltimore metropolitan area.

Including California, Maryland, Massachusetts, New Jersey, Pennsylvania and New York, eleven States now have programs to supplement local contributions to the Federal mass transportation program with State funds.[5] Undoubtedly other urban States will help finance such programs. A broader policy for a balanced transportation system–recognizing not only highway needs but also mass transit needs–is developing slowly but surely. Eight States–California, Connecticut, Delaware, Florida, Hawaii, New Jersey, New York and Wisconsin–have already converted their highway departments to departments of transportation.[6]

With the development of departments of transportation the States have perhaps started the administrative counterpart for new transportation financing arrangements. Highway-user taxes, tolls and user charges for other modes of transportation could be accumulated in a "Transportation Fund" for distribution in accordance with a plan administered by the State department of transportation. This would represent a halfway-house between outright repeal of antidiversion provisions and complete earmarking of transportation fees.*

Housing and Urban Renewal

The 1967 Census of Governments reports that seven States provided a mere $67 million in aid payments for housing and urban renewal programs. This compares with a Federal program of ten times that magnitude and local government expenditures in the housing and urban renewal field of $1.5 billion. However, a number of States authorized new and expanded housing and urban renewal programs in 1967 and 1968–among them Connecticut, Delaware, Massachusetts, Michigan, New Jersey, Vermont, West Virginia, and Wisconsin. More important, several States are beginning to take a broad new approach to the problem of urban development.

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*See Chapter V for a discussion of State anti-diversion amendments.

The Connecticut approach–A prime example of this new approach is the Connecticut Department of Community Affairs, which became operative July 1, 1967, and is charged with providing financial and technical assistance to localities. Connecticut's decision to place major reliance upon State initiative and financial resources rather than upon Federal and local funds stands in sharp contrast to the typical approach to implementing urban programs. For the fiscal years 1968 and 1969, Connecticut provided funds totaling $55 million for eighteen new programs in five general areas: planning and zoning; physical improvements and community development; housing, including code enforcement and tax abatements on low- and moderate-income dwellings; personal services, including relocation assistance and rehabilitation activities in housing projects; and human resource development. State grants to local governments for most of these activities are to be renewed at the termination of the biennium.

As a condition of eligibility for State financial aid, localities are required to prepare comprehensive "community development action plans" for submission to regional planning agencies for review and comment. The enabling legislation also created an Advisory Council on Community Affairs to conduct studies and to advise the Commissioner concerning local problems.

New York's program–Perhaps the most comprehensive State effort on the urban front is the New York State urban development program. The central objective of New York's program has been described as one that "would (a) get things moving faster and (b) bring to bear the needed financial and intellectual resources of private enterprise."[7]

New York established three corporations to deal with various phases of an overall State urban development effort. Only one of the three is a public benefit corporation vested with the privileges and immunities of a governmental organization–the New York State Urban Development Corporation. It possesses borrowing powers and the right of eminent domain and may override local laws and regulations. It may act only where it satisfies statutory criteria for a "finding" that a project will fulfill an appropriate and specifically unmet need. It can be designated by a municipality as the sponsor of an urban renewal plan or it may proceed with its own plan where the finding is established.

The Corporation for Urban Development and Research in New York has a mission similar to the Urban Development Corporation but will draw its financial support from private sources as well as from governments that participate in the operation of local subsidiaries of the parent corporation.

The Urban Development Guarantee Fund is authorized to guarantee loans made by conventional lending institutions to small businesses and owners of residential property. This corporation will obtain its capital from gifts, grants and the sale of debentures.

Sewage Treatment Facilities

Spurred by the provisions of the 1965 Water Quality Control Act, many States become active partners with localities in carrying out water and air pollution abatement programs. With Federal categorical aid as the "carrot" and possible direct Federal enforcement as the "stick", water pollution abatement activity increased sharply in 1967–considerably beyond the $26 million of State payments reported by the Census Bureau for fiscal 1967. By the end of that year, 20 States had authorized financial assistance to local water pollution abatement efforts and Michigan, Ohio and Washington joined the fold in 1968. In some States, these programs are quite extensive:

- New York established a Pure Water Authority to assist local governments in the construction, maintenance and operation of water pollution abatement systems. The program provides for 30% State aid and "pre-financing" of the 30% Federal share.
- Rhode Island voters in June 1967 approved a $29 million bond issue of which $12 million was earmarked for matching local funds for sewage treatment projects.
- Connecticut's 1967 legislative session established a regional authority and approved a $150 million clear water bond issue. State funds will be available to municipalities to undertake new anti-pollution projects or to assist those plants currently under construction.
- In 1968, a $3.35 billion bond issue was authorized in Michigan to provide sewage disposal and water supply facilities, and part of a $759 million bond issue was authorized for similar purposes in Ohio.

  In many of these States legislative activity went beyond clear waters to encompass air pollution abatement assistance as well.

On the debit side,

- Illinois voters turned down a $1 billion bond issue in 1968 which would have provided $200 million for sewer and water projects and for air pollution facilities.

The marked increase in State participation in pollution control efforts may be viewed mainly as a response to the special incentive provision in the Water Quality Act of 1965, which provides for a Federal aid bonus for projects when the State "buys in," and to a combination of the "carrot and stick" technique in the Air Quality Act of 1967.

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Because the Federal Government has developed many urban oriented programs of categorical assistance–

frequently bypassing the States—much confusion exists as to the appropriate role of the State in the urban field. Most would, however, agree that because these services are of more than local interest, States must do more than simply react to Federal-local initiatives.

The principal financial issue seems to be one of strategy—how best to get the State into wholesale involvement and participation in the functions of urban government. Direct financial program assistance is but one of a number of options. Moreover, it is likely to be influenced by the amount and objectives of the State aid provided in other related functional and program areas.

How and when the State's role in urban affairs will finally crystalize cannot be forecast. Nevertheless, State legislation, constitutional revision and referendum proposals indicate certain evolving trends.

- Some States are making notable efforts toward "unshackling" local governments and enabling them to deal with metropolitan-wide problems.
- Many States are establishing agencies for local affairs, several of which have substantial financial, program and coordination responsibilities, as well as technical assistance, advisory and research functions.
- Some States are beginning to appropriate sizeable amounts of funds to assist local governments and are continuing to "buy into" Federal-local grant-in-aid programs, but with a considerable part of this activity continuing to be a response to Federal incentives.
- Increasingly, States are becoming concerned with the replacement of antiquated constitutional articles by provisions equipping them with the necessary tools to meet twentieth century needs.

In a number of States, however, some of the above trends are hardly discernible; in a few States, none are. It has taken a considerable period of time for most States to recognize their role, responsibility and stake in facing existing or potential problems attending the urbanization of the nation and to recognize that survival of the States as viable partners in the American Federal system depends to a significant degree upon the dispatch and intensity with which they respond to the challenge of the cities.

STATE GENERAL SUPPORT AID AND PROPERTY TAX RELIEF

Current Financial Magnitudes and Trends

State general support aid has as its distinguishing feature the fact that it is unconditional; that is, local governments are permitted to determine their own priorities for spending such funds.

This "no-strings" money may be either a grant appropriated by the State legislature or a tax that is collected by the State but shared—in whole or in part—with the localities. Such State grants totalled $1.6 billion in 1967—nearly double the $844 million provided in 1962. Despite this growth in absolute amounts, State aid for general local government support has been of declining relative importance during the post World War II years—falling from 13.0 percent of all State financial assistance in 1948 to 8.3 percent in 1967.

Not entirely included in the 1967 figures, however, are general support programs in the form of property tax relief—some long-standing ones like the homestead exemptions of Florida, Iowa and Louisiana, and other more recent programs like those enacted by Indiana, Michigan and Minnesota in 1967, and by California in 1968. Through a dedication of State revenues for payment to local governments to reduce their aggregate local levies, and thereby the tax bills of property owners, these States provide perhaps as much as $500 million of "no-strings" support. In general, this type of aid is designed to grow either with the increase in the dedicated receipts or by reason of the increase in property tax burdens.

Aside from Delaware, Georgia, Illinois, Montana, and West Virginia, each of the State governments provided some funds for general support during 1967. In many such States, however, the amounts were quite small (table A-27*); indeed in 12 States providing general purpose grants, the amounts were less than $1.00 per capita. Moreover, the variation among States that provide general support grants ranged from a low of $0.01 per capita in Texas to a high of $68.94 per capita in Wisconsin—with a nationwide average of $8.04.

Most of the State general purpose aid during 1967 was received by municipalities—some 58.7 percent—while counties and townships received 27.1 percent and 10.8 percent respectively.** Of the $1.6 billion in general local government support, however, only 42 percent was distributed to localities on the basis of need, either program or financial. The bulk of such State payments therefore—some 58 percent—was channeled to localities without any clear recognition of the demands for public services placed on them or of local ability to provide such services. Rather, the money was returned on the basis of origin, divided equally, etc.

A considerable portion of the State aid for general local government support and, as was noted in the previous chapter, virtually all of the highway aid, is in the form of shared taxes. To a large extent tax sharing is the offshoot of a traditional phenomenon in State finance—the earmarking of specific revenue sources for specific purposes.

In its purest form tax sharing involves the return of State tax revenue to the local governments in which it is collected. In effect, this amounts to the substitution of State tax collection machinery for mandated collection of the same tax by individual local governments. This type of tax-sharing differs from the local option State-administered piggy-back tax, where in order to obtain the revenue a local government has to take positive action in imposing the tax.

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*Appendix tables appear at the end of each chapter.

**Special districts received the remaining amounts.

Wisconsin affords the classic example of the use of shared taxes that are returned to the locality from which the tax collections originate. In that State a significant portion of its personal and corporation income taxes and most of the Statewide property taxes on public utility property (mainly railroad terminals and light and power plants) are returned to the cities, towns and counties of origin. Income tax shares are paid to the localities in which taxpayers (both corporate and individual) reside; utility property taxes are returned in proportion to the value of property and retail sales of the taxpaying companies. About $175 million of State taxes was returned to Wisconsin cities, towns and counties by this means in 1967—almost one-third of Wisconsin's total State aid.

Outside of Wisconsin there are only a few instances of tax sharing on an origin basis. Until 1967 Maryland returned a portion of its personal income tax to the city of Baltimore and the counties in which the collections originated, but this distribution was replaced by piggy-back local income taxes.

In 1949 New York replaced most of its shared taxes (personal income, corporation income, alcoholic beverage, and utility taxes) with a system of per capita aid for general local government support. The Commission that recommended the change pointed out the drawbacks of shared revenues: their instability as a local revenue source; the fact that shared revenue bears no relationship to local needs; and the complexity of a "hodge-podge" of distribution formulae.[9] The corporation income tax, which provided the largest amount of shared revenue was returned to the localities in which the tax originated. The personal income tax was shared in proportion to local assessed value of real estate, and alcoholic beverage and utility taxes were shared in proportion to population. Per capita grants under the new plan (popularly known as the "Moore Plan", so named after Frank C. Moore, the Commission Chairman) are paid out of appropriated funds rather than from specified tax sources.* Taking an opposite tack, Wyoming repealed its authorization for local piggy-back sales taxes in 1967 and provided for distribution of its additional 1/2 percent tax (the State tax was raised from 2 1/2 to 3 percent) to counties in which the tax is collected. Mississippi took a similar approach in 1968.

Because the sharing of State taxes on an origin basis aggravates local fiscal disparities, there is a definite trend toward a "moderately" equalizing formula for sharing State collected revenue—distribution on the basis of population. When it enacted its 4-cent cigarette tax, Oregon provided for distributing the entire proceeds to its local governments: one-half for property tax relief; one-fourth to counties in proportion to population; and one-fourth to cities in proportion to population. A portion of the new Michigan income tax is distributed on a population basis, as is part of the new Minnesota sales tax.

Distribution of General State Aid—Two Possible Approaches

The distribution of general State aid can take at least two distinct forms; the allocation can be made either by "class of government" or on an "areal" basis—in most cases the county unit.

Under the *class of government* approach the allocation would be made among the eligible classes (cities, counties, and in some cases towns) in accordance with their financing responsibility. This could be accomplished by allocating to each class of local government its pro rata share of the noneducational expenditure from own sources. For example, if the municipalities financed from their own sources 65 percent of all local noneducational general expenditure then all municipalities as a class of government would be entitled to 65 percent of the general support funds.

Once this division has been made, then the distribution to each locality within its class can be governed by equalization considerations. For example, if the 65 percent that has been allocated to the municipalities amounted to $100 million, this $100 million could then be distributed among the municipalities on a moderately equalizing basis—a per capita distribution adjusted for tax effort.

The following table illustrates this approach:

	Population (000)	Tax effort*	Pop. adj. for tax effort (000)	Distribution (percent)
Municipality A	45	1.2	54	60
B	35	.8	28	31
C	20	.4	8	9
Total	100	...	90	100

*Could be expressed as percentage of market value or personal income or a combination of income and market value.

A straight per capita distribution would yield $45 million to Municipality A, since it has 45 percent of the total municipal population. Municipalities B and C would get $35 million and $20 million, respectively, by applying their population shares to the $100 million "municipal pot." Adjusting for tax effort alters these relative shares. When each municipal population is multiplied by its tax effort and then expressed as a percentage of the corresponding amounts for all municipalities the relative shares turn out as 60 percent, 31 percent and

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*It should be noted, however, that New York now turns over the entire proceeds of the stock transfer tax (about $150 million in 1967) to New York City, partly to offset the loss of city general sales tax revenue resulting from a mandated cutback from 4 to 3 percent when New York State enacted a statewide 2 percent sales tax in 1965.

9 percent in Municipalities A, B and C, respectively. Applying these shares to the $100 million "municipal pot" yields $60 million to A, $31 million to B and $9 million to C. Introduction of the tax effort factor then has the effect of "rewarding" Municipality A because of its above average tax effort while reducing the shares of both Municipalities B and C from those yielded by the straight per capita distribution.

The "class of government" approach has the obvious virtue of simplicity but is vulnerable because it ignores intercounty variations in the assignment of financing responsibility and falls short on equalization grounds. To put it more sharply it is possible that a rich county will receive more per capita general support aid than a poor city.

The *areal* approach is somewhat more complicated, but can be designed to do justice to both the equalization and the division of responsibility concepts. For example, the initial State allocation could be made to the county based on each county's pro rata share of the total State population, possibly adjusted for such equalization factors as total tax effort of all the jurisdictions within the county, or poverty concentrations.

After the initial State allocation has been made to the county, then the rule of congruency (division of fiscal responsibility) would take over. For example, if the largest city in the county accounts for 60 percent of the noneducational expenditure from all sources of all eligible local units of government including the county, then that municipality would be entitled to 60 percent of the county allocation, and if the county government's expenditure accounts for 15 percent of the same aggregate eligible expenditures, then that jurisdiction would be entitled to 15 percent of the allocation. At this point a second equalization adjustment could be made by simply relating each local government's noneducational expenditure from its own sources to a measure of ability to pay—such as equalized assessments or personal income.

Recent State Property Tax Relief Actions

Propelled by the growing demand for property tax relief, several States have recently embarked on programs that are essentially general support in character. The aid is extended by the direct transfer of State funds to local governments on a "no expenditure strings" basis as reimbursement for tax relief granted to property owners by the State legislature.

In 1963 Wisconsin tied the adoption of a sales tax to a major property tax relief program. Reimbursement to Wisconsin's local governments under this program amounted to some $100 million in 1967.

Minnesota adopted a new 3 percent sales tax and increased its corporation income tax rate in 1967. To a property tax relief fund, it appropriated the proceeds of one-fourth of the sales tax, the total increase in the corporation income tax, half of gross earnings taxes on railroad and telephone and telegraph companies, already in effect, plus $50 million annually from general and school funds. The property tax relief fund (approximately $200 million) is used to compensate local governments for their revenue loss from a 35 percent reduction (up to $250 per taxpayer) in taxes on homestead property and on agricultural land used for homesteads. Renters are allowed a credit of 3.75 percent of rent paid, up to $45 per year each. The fund will also distribute aid to local governments for their unrestricted use, and to school districts, in part for school budget needs and in part as an offset to school levies.

Indiana dedicated 8 percent of State sales and income tax collections to a property tax relief fund, for the period January 1, 1967 to September 1968. The funds (estimated at $30 million) were allocated to counties essentially on the basis of the ratio of sales and income taxes paid in each county to the State total and were treated as property tax revenue by the receiving local government in determining its property levy.

In 1967, Michigan took both the direct aid route and the property tax relief path. Seventeen percent of the new income tax proceeds is allocated to local governments on a per capita basis. That State also earmarked a portion of the additional revenue for property tax relief. The property owner is permitted to credit a part of his local property tax payment against his State income tax liability. The State income tax credit is graduated inversely to the amount of local property taxes paid, ranging from 20 percent of the first $100 of property taxes to 4 percent on property taxes in excess of $10,000. Renters of homesteads may claim a credit, treating 20 percent of gross rent as taxes.

The California voters adopted a constitutional amendment in November 1968 providing for a homestead exemption of $750 assessed value and requiring the State to reimburse the local governments for their tax loss, estimated together with business property tax relief measures at approximately $200 million.

Tax Substitution Vs. Revenue Supplementation

It must be emphasized that most of the tax relief programs described above differ sharply from the general support programs outlined in the preceding section of the chapter. These local tax relief programs were designed in part to "sugar coat" the enactment of a State sales tax (Wisconsin, Minnesota) and a State income tax (Michigan) and to head off a drastic State-local fiscal upheaval (California). Thus, these "general support" grants to local governments were designed to substitute a "new" State income or sales tax dollar for an old local property tax dollar. This *substitution* effect stands in sharp contrast to the local revenue *supplementation* objective of a general support grant of the New York per capita type.

TABLE 29—ESTIMATED LOCAL DIRECT TAX BURDEN FOR A FAMILY OF FOUR WITH $10,000 GROSS INCOME RESIDING IN THE LARGEST CITY IN EACH STATE, 1968

City[1]	Real estate tax[2]		Local direct taxes[3]	
	Amount	As a % of market value of home	As a % of Gross income	As a % of Market value of home
1. Newark, N. J.	$1,501	7.90%	15.01%	7.90%
2. Burlington, Vt.	771	4.06	7.71	4.06
3. Boston, Mass.	737	3.88	7.37	3.88
4. Milwaukee, Wis.	724	3.81	7.24	3.81
5. Philadelphia, Penn.	496	2.61	6.96	3.66
6. Indianapolis, Ind.	694	3.65	6.94	3.65
7. Baltimore, Md.	544	2.86	6.72	3.54
8. Manchester, N. H.	658	3.46	6.58	3.46
9. Hartford, Conn.	647	3.41	6.47	3.41
10. Sioux Falls, S. D.	643	3.38	6.43	3.38
11. Portland, Me.	640	3.37	6.40	3.37
12. Des Moines, Iowa	635	3.34	6.35	3.34
13. New York, N. Y.	478	2.51	6.26	3.29
14. Detroit, Mich.	510	2.68	6.05	3.18
15. Omaha, Nebr.	587	3.09	5.87	3.09
16. Portland, Ore.	562	2.96	5.62	2.96
17. Wilmington, Dela.	560	2.95	5.60	2.95
18. Providence, R. I.	555	2.92	5.55	2.92
19. Wichita, Kansas	541	2.85	5.41	2.85
20. Miami, Florida	538	2.83	5.38	2.83
21. Great Falls, Mont.	520	2.74	5.20	2.74
22. Denver, Colo.	410	2.16	4.97	2.62
23. Fargo, N. D.	494	2.60	4.94	2.60
24. St. Louis, Mo.	404	2.13	4.92	2.59
25. Cleveland, Ohio	408	2.15	4.84	2.55
26. Los Angeles, Calif.	446	2.35	4.80	2.53
27. Phoenix, Arizona	432	2.27	4.80	2.53
28. Louisville, Ky.	302	1.59	4.77	2.51
29. Memphis, Tenn.	424	2.23	4.76	2.51
30. Anchorage, Alaska	459	2.42	4.59	2.42
31. Chicago, Ill.	402	2.12	4.33	2.28
32. Houston, Texas	404	2.13	4.25	2.24
33. Boise, Idaho	424	2.23	4.24	2.23
34. Charlotte, N. C.	386	2.03	4.20	2.21
35. Salt Lake City, Utah	378	1.99	4.02	2.12
36. Oklahoma City, Okla.	342	1.79	3.86	2.03
37. Las Vegas, Nevada	333	1.75	3.74	1.97
38. Minneapolis, Minn.	362	1.91	3.62	1.91
39. Atlanta, Georgia	356	1.87	3.56	1.87
40. Cheyenne, Wyoming	353	1.86	3.53	1.86
41. Jackson, Miss.	323	1.70	3.52	1.85
42. Albuquerque, N. M.	239	1.26	3.32	1.75
43. Seattle, Washington	288	1.52	2.88	1.52
44. Little Rock, Ark.	265	1.39	2.66	1.39
45. Norfolk, Virginia	224	1.18	2.63	1.38
46. Birmingham, Alabama	192	1.01	2.53	1.33
47. Columbia, South Carolina	251	1.32	2.51	1.32
48. New Orleans, Louisiana	106	.56	2.38	1.25
49. Charleston, W. Va.	179	.94	1.79	.94
50. Honolulu, Hawaii	150	.79	1.50	.79
Median	428	2.25	4.82	2.54

[1] Cities are ranked from high to low on the basis of local direct taxes as a percentage of gross income.

[2] Real estate tax estimates are based on a home with a $19,000 market value. Amounts were originally computed for 1966 on the basis of effective property tax rate data for selected major local areas, reported by the U.S. Bureau of the Census in *Taxable Property Values*, Vol. 2 of the 1967 Census of Governments. The 1966 estimate for the largest city in each State was reviewed by a knowledgeable official in each such city and updated to 1968 for this presentation. In a number of instances, local estimates for 1968 deviated significantly from the 1966 Census estimates. The difference was at least one-third in the following cities: Newark, Detroit, Anchorage, Charlotte, and Atlanta.

[3] Includes the following local taxes: real property, personal income, and general sales. In computing personal income taxes, it was assumed that all income was from wages and salaries and earned by one spouse, and that the optional standard deduction was used.

This distinction, however, often becomes blurred in actual fiscal practice. The State grant to local government for local property tax relief—unless completely offset by local tax reductions—can have some local revenue enhancement effect. A dramatic local rate reduction also reduces local resistance to higher local levies thereby permitting local authorities to raise rates subsequently. Thus, State officials can claim credit for granting property tax relief while local authorities enjoy greater leeway in raising tax rates.

Even the straight per capita grant for local revenue supplementation has obvious property tax relief effects—if not in permitting tax reductions then at least in lessening the pressure for higher property tax rates.

The case for the use of State grants (rather than local nonproperty taxes) to supplement local property tax revenue rests on the greater jurisdictional reach of the State and hence its superior revenue raising capability. Moreover, this approach to local revenue diversification offfers a means to strengthen the fiscal position of all local governments while minimizing their vulnerability to interlocal tax competition. By giving State per capita grants an equalization twist, it is also possible to bring local needs and resources into closer alignment—another sharp contrast to local nonproperty taxes which often increase interlocal fiscal disparities.

There is also a place for a State grant designed to *reduce* the general level of property taxation in those communities that are carrying extraordinary tax burdens in relation to their fiscal capacity. This approach was recommended by the Advisory Commission in its report *Metropolitan Social and Fiscal Disparities* (pp. 124-125).

To prevent this type of aid from degenerating into across-the-board relief, the State grant money could be restricted to those communities with extraordinary effective rates, say above 2.5 percent of market value. As illustrated by the data set forth in table 29, approximately one-third of the selected cities would fall into the "extraordinary" property tax burden classification if this 2.5 percent test is used to determine excessive tax loads.

Rifling State aid into these central cities with high tax rates would help in equalizing or reducing fiscal disparities in these metropolitan areas. Such fiscal assistance would help central cities where high tax rates are reinforcing other powerful social and economic forces in propelling high income families and business firms out of the central city and into the neighboring suburban jurisdictions.

There is still a third dimension to this property tax relief issue—the use of State funds to reimburse low income householders and renters for that portion of their property tax payment deemed to be excessive in relation to their household income. Wisconsin has pioneered in this field and the Advisory Commission has recommended that States relieve any undue local property tax burden on low income families (*Fiscal Balance in the American Federal System*, Vol. 1, pp. 22-23).

Footnotes

[1] *ACIR, State Legislative and Constitutional Action on Urban Problems in 1967* (M-38), April 1968, p. 18. See also ACIR Bulletin 69-12, p. 13 ff.

[2] 49 USCA 1601 ff.

[3] P.L. 90-464; 82 Stat. 654.

[4] U.S. Department of Transportation, Urban Mass Transportation Administration, *Approved Capital Grant Projects*, Status as of Dec. 31, 1968 (mimeographed).

[5] ACIR, *op. cit.*, p. 25. The other six States are providing technical assistance and some planning money.

[6] Norman Ashford, "The Developing Role of State Government in Transportation," in *Traffic Quarterly*, October 1968, p. 456.

[7] H. Douglas Barclay and David Beers, "New York," *Journal of Housing*, No. 4, April 1968, p. 192.

[8] ACIR, *Metropolitan Social and Economic Disparities: Implications for Intergovernmental Relations in Central Cities and Suburbs* (A-25) January 1965, pp. 123 and 124.

[9] New York State, *Report of the Commission on Municipal Revenues and Reductions of Real Estate Taxes* (Albany: 1946), pp. 18 and 19.

TABLE A-27–GENERAL PURPOSE STATE AID TO LOCAL GOVERNMENTS, 1967
(Dollar amounts, except per capita, in thousands)

State	Total					Distribution by type of receiving unit					
						Counties		Municipalities		Townships	
	Amount	% of loc. gen. revenue	Per capita	Percent based on "need"	Percent not based on "need"	Amount	% of total	Amount	% of total	Amount	% of total
United States	$1,584,847[1]	2.70	$ 8.04	42.4	57.6	$430,821	27.1	$930,515	58.7	$170,624	10.8
Alabama	7,496	1.14	2.12	31.5	68.5	4,085	54.5	3,411	45.5	—	—
Alaska	2,520	3.45	9.26	—	100.0	—	—	2,520	100.0	—	—
Arizona	40,477	8.70	24.77	42.1	57.9	23,294	57.5	17,183	42.5	—	—
Arkansas	7,756	2.49	3.94	60.9	39.1	4,040	52.1	3,716	47.9	—	—
California	105,085	1.20	5.49	81.9	18.1	96,082	91.4	9,003	8.6	—	—
Colorado	282	.04	.14	—	100.0	282	100.0	—	—	—	—
Connecticut	989	.13	.34	—	100.0	—	—	—	—	989	100.0
Delaware	—	—	—	—	—	—	—	—	—	—	—
Florida	1,382	.06	.23	—	100.0	1,382	100.0	—	—	—	—
Georgia	—	—	—	—	—	—	—	—	—	—	—
Hawaii	10,507	7.63	14.22	—	100.0	8,440	80.3	2,067	19.7	—	—
Idaho	3,440	2.05	4.92	100.0	—	1,070	31.1	2,370	68.9	—	—
Illinois	—	—	—	—	—	—	—	—	—	—	—
Indiana	19,400	1.39	3.88	69.9	30.1	3,435	17.7	15,965	82.3	—	—
Iowa	37,217[2]	4.80	13.52	7.4	92.6	8,091	21.7	8,703	23.5	—	—
Kansas	10,889[3]	1.58	4.70	49.8	50.2	5,786	53.1	4,620	42.4	311	2.8
Kentucky	2,183[2]	.38	.68	—	100.0	1,453	66.6	243	11.1	—	—
Louisiana	64,306[4]	6.32	17.56	17.4	82.6	14,121	22.0	24,442	38.0	—	—
Maine	464	.25	.48	—	100.0	—		194	41.8	270	58.2
Maryland	71,264	6.18	18.35	22.3	77.7	50,916	71.4	20,348	28.6	—	—
Massachusetts	161,244	9.07	29.74	—	100.0	—	—	90,619	56.2	70,625	43.8
Michigan	95,864[2]	3.53	11.17	73.6	26.4	970	1.0	64,224	67.0	27,555	28.7
Minnesota	22,483[2]	1.81	6.28	53.9	46.1	6,984	31.1	10,055	44.7	1,648	7.3
Mississippi	15,030	3.42	6.40	6.7	93.3	14,492	96.4	538	3.6	—	—
Missouri	4,147[2]	.39	.90	—	100.0	1,232	29.7	1,854	44.7	—	—
Montana											
Nebraska	1,147	.28	.80	100.0	—	287	25.0	860	75.0	—	—
Nevada	4,678	2.86	10.64	92.2	7.8	2,291	49.0	2,387	51.0	—	—
New Hampshire	3,435	2.42	5.01	—	100.0	—	—	1,176	34.2	2,259	65.8
New Jersey	7,790	.37	1.11	—	100.0	3,001	38.5	4,789	61.5	—	—
New Mexico	3,973	1.45	3.98	—	100.0	3,646	91.8	327	8.2	—	—
New York	357,081[3]	4.02	19.46	55.7	44.3	22,115	6.2	296,558	83.1	38,288	10.7
North Carolina	23,378	2.38	4.66	22.6	77.4	12,904	55.2	10,474	44.8	—	—
North Dakota	1,506	.90	2.38	100.0	—	—	—	1,506	100.0	—	—
Ohio	78,291	2.03	7.49	86.5	13.5	25,043	32.0	47,150	60.2	6,098	7.8
Oklahoma	2,484	.45	.99	100.0	—	—	—	2,484	100.0	—	—
Oregon	34,507	5.85	17.28	63.5	36.5	28,511	82.6	5,996	17.4	—	—
Pennsylvania	6,068	.23	.52	—	100.0	143	2.3	4,702	77.5	1,225	20.2
Rhode Island	7,259	3.82	8.18	4.2	95.8	—	—	4,853	67.3	2,406	32.7
South Carolina	20,463	5.27	7.87	83.0	17.0	15,423	75.4	5,040	24.6	—	—
South Dakota	1,896	1.19	2.81	53.0	47.0	908	47.9	918	48.4	70	3.7
Tennessee	21,907	2.75	5.63	82.9	17.1	3,156	14.4	18,751	85.6	—	—
Texas	129	.01	.01	—	100.0	129	100.0	—	—	—	—
Utah	1,000	.39	.98	100.0	—	267	26.7	733	73.3	—	—
Vermont	10	.01	.02	n.a.	n.a.	—	—	—	—	10	100.0
Virginia	13,811	1.48	3.04	90.2	9.8	7,339	53.1	6,472	46.9	—	—
Washington	18,521	2.07	6.00	100.0	—	3,709	20.0	14,812	80.0	—	—
West Virginia											
Wisconsin	288,775	21.25	68.94	19.4	80.6	53,107	18.4	216,795	75.1	18,873	6.5
Wyoming	2,228	1.88	7.07	—	100.0	710	31.9	1,518	68.1	—	—

n.a. Data not available.

[1] Includes $60,284,000 payments to school districts, and $4,883,000 to special districts.

[2] Includes the following payments to school districts (in thousands): Iowa, $20,393; Kentucky, $467; Michigan, $3,115; Minnesota, $3,796; and Missouri, $1,061.

[3] Includes the following payments to special districts (in thousands): Kansas, $172; New York, $120.

[4] Includes $21,432,000 payments to school districts, and $4,311,000 payments to special districts.

Source: Developed by ACIR staff from data in U.S. Bureau of the Census, Census of Governments, 1967, Vol. 6, No. 4, *State Payments to Local Governments.*

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[1] Single copies of reports may be obtained without charge from the Advisory Commission on Intergovernmental Relations. Washington, D. C. 20575.

*Multiple copies of items may be purchased from the Superintendent of Documents, Government Printing Office. Washington, D. C. 20402.

8529

ANALYSIS OF SCHOOL FINANCES
NEW YORK STATE SCHOOL DISTRICTS

1969-70

The University of the State of New York
THE STATE EDUCATION DEPARTMENT
Bureau of Educational Finance Research
Albany, New York 12224

April 1971

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GLOSSARY OF TERMS

Operating Expenditures -	Expenditures on the regular day-to-day program, excluding capital outlay and debt service for school buildings, transportation, and tuition paid to other districts.
Total Expenditures -	Operating expenditures plus capital outlay, debt service for school buildings, transportation, and tuition paid to other districts.
Total State Aid -	The sum total of all State aid paid pursuant to the provisions of sections 3602, 3602a, 1104, 909, and 1958 of the education law.
Tax Levy -	Local revenues raised by tax for school purposes, including property and non-property tax revenues.
Tax Rate -	The tax levy as a percent of full value of real property.
Full Value of Taxable Real Property -	Total assessed valuation of property on the tax rolls within the district adjusted by the State equalization rate determined for such rolls.
Pupils -	Weighted average daily attendance (WADA)--full-day kindergarten and first through sixth grade average daily attendance, plus 1/2 day kindergarten average daily attendance, plus 1-1/4 seventh through 12th grade average daily attendance.
Major Districts -	Districts having eight or more teachers.

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Chapter I

THE FINANCING OF PUBLIC EDUCATION IN NEW YORK STATE IN SCHOOL YEAR 1969-70 AND ESTIMATES FOR 1970-71

An Overview

Public elementary and secondary school expenditures rose $393 million to an estimated $4,544,966,000 in 1969-70. Of this total, the State's share was $2,058,415,177, or 45.3 percent. Federal funds amounted to $197 million, or 4.3 percent, chiefly to finance the Elementary and Secondary Education Act of 1965, and the remaining 50.4 percent came from local tax and nontax revenues.

State aid is paid from the State's general fund, and is obtained principally from income and sales taxes. The local districts' share comes mainly from real property taxes.

Trend in Expenditures and State Aid

Table 1 summarizes the trend of public school expenditures and State aid payments since 1945-46. In 1962-63, the first school year after the enactment of the Diefendorf aid formula, State aid amounted to 44.4 percent of total expenditures. Since then, the percentage has fluctuated, depending mainly on whether the Legislature adjusted the State-local sharing ceiling. The reduced percentages per pupil in

Table 1

State Aid Payments Compared to Total Expenditures For Public Elementary and Secondary Schools 1945-46 To 1970-71

School Year	Total State Aid	Total Expenditures	Percent From State Aid
1945-46	$ 120,916,352	$ 378,143,894	32.0
1946-47	137,329,874	425,614,877	32.3
1947-48	154,718,759	477,887,493	32.4
1948-49	180,313,480	528,719,498	34.1
1949-50	239,305,992	563,376,271	42.5
1950-51	249,978,815	616,183,761	40.6
1951-52	271,893,281	686,883,519	39.6
1952-53	283,792,717	754,721,654	37.6
1953-54	300,616,864	821,271,032	36.6
1954-55	342,111,458	925,362,728	37.0
1955-56	374,038,629	1,031,370,877	36.3
1956-57	464,965,442	1,187,779,753	39.1
1957-58	514,202,919	1,328,651,873	38.7
1958-59	593,554,985	1,459,752,597	40.7
1959-60	636,233,653	1,596,411,569	39.9
1960-61	747,807,022	1,750,175,348	42.7
1961-62	800,834,961	1,915,199,813	41.8
1962-63	953,579,515	2,146,273,214	44.4
1963-64	1,016,065,918	2,336,858,547	43.5
1964-65	1,088,469,126	2,538,791,834	42.9
1965-66	1,282,983,221	2,799,355,786	45.8
1966-67	1,472,335,594	3,285,027,751	44.8
1967-68	1,651,221,833[a]	3,621,239,665	45.6
1968-69	2,007,038,195[b]	4,152,386,754	48.3
1969-70	2,058,415,177	4,544,965,621[c]	45.3
1970-71	2,331,000,000[d]	5,105,000,000[d]	45.7

[a] Includes an additional one-half year's payment of $51,857,477 to New York City for aid on a five-borough district basis

[b] Includes aid to New York City on a five-borough district basis from 1968-69 through 1970-71

[c] Preliminary

[d] Estimated

NOTE: Expenditures made from the Federal fund are included in total expenditures from 1965-66 on.

1963-64 and 1964-65 illustrate the effects of continuing the $500 expenditure ceiling when most school districts were spending more than this. The increase to 45.8 percent in 1965-66 reflected the change to a $600 ceiling. In 1966-67, despite an increase in the ceiling to $660, the percentage declined to 44.8 as costs rose more steeply than aid payments. Although the ceiling remained at $660 for 1967-68, the $179 million aid increase raised the State contributed percentage to 45.6 percent. For the first time, the combined State and Federal shares amounted to more than one-half of total expenditures.

Because of the unusually large increase of $356 million in aid in 1968-69, the State's share of expenditures rose to a record 48.3 percent. In 1969-70, in contrast, the $51 million increase in State aid was the smallest since 1959-60; consequently, the State share fell to 45.3 percent. The small increase reflected not only an unchanged ceiling, but also the imposition of a "valuation check." Additional aid was paid to a district only to the extent that the increase exceeded one-eighth of one percent ($1.25 per $1,000) of its full property valuation.

The last line of Table 1 is an estimate of State aid and expenditures for 1970-71.

Types of Aid

The term "general aid" is used to describe all aid paid under the shared-cost formula. It includes aid for operating expenses, transportation, school building debt service, and capital outlay. "Operating aid" includes growth, sparsity and density correction, current budget aid, and, beginning in 1968-69, high tax aid.

General aid accounted for $1,919,615,593 or 93.3 percent of all aid paid to school districts in 1969-70. Special aids were cut from 18.2 percent of all State aid paid in 1961-62 to 2.5 percent in 1965-66 and 6.7 percent last year. The aid program enacted by the Legislature in 1962 included most special aids in the general formula to remove the undesirable elements of State control over local education. The three most important kinds of aids paid outside the general formula are: aid to Boards of Cooperative Educational Services, aid to urban areas for special educational needs associated with poverty, and aid to districts for public and nonpublic textbook purchases. Aid paid under these programs was, respectively, $60, $39, and $18 millions.

Chapter II

STATE AID PROGRAMS

The State Aid Program

In 1969-70, New York State was in the eighth year of operation under the State aid formula enacted in 1962 as a result of the recommendations of the Joint Legislative Committee on School Financing, headed by Charles H. Diefendorf. The formula is described below.

A. A principle of State-local sharing of all approved operating costs up to $500 per WADA was intended to give the new program greater flexibility and freedom for adapting the local educational program. The $500 figure represented the 1961-62 median operating expenditure per pupil in the State. Some flexibility therefore existed for half the districts in the State at that time. Each of these could, in a sense, choose its own foundation level and receive State support for it. For those districts already spending more than $500, the new program simply substituted a new foundation level of $500 for the previous foundation level. The Joint Committee intended this $500 ceiling to be a flexible element in the formula, and to be increased as school costs rise. As shown in Table 7 (p. 32), operating costs per pupil have risen substantially. The ceiling was raised to $600 per pupil for aid paid in school year 1965-66, to $660 per pupil in school years 1966-67 and 1967-68, and to $760 for aid payable in 1968-69 and 1969-70. For 1970-71 aid, districts were allowed to choose the more advantageous of two options. The main provisions were: Option I, a ceiling of $860 and one-half of 1969-70 size correction; Option II, a $760 ceiling, 10 percent additional operating expense aid, and 100 percent of 1969-70 size correction aid.

B. The degree to which the State will share in this program is determined by an aid ratio determined for each district by comparing its equalized taxable wealth per resident pupil to the average taxable wealth per pupil for the State. The formula was so designed that a district of average wealth was reimbursed for 49 percent of its operating expenses up to the ceiling of $760 per pupil for aid paid in 1969-70. Districts with greater than average wealth will have lower aid ratios and those with lesser wealth, higher aid ratios, determined by this formula:

$$\text{Aid Ratio} = 1.00 - \left[\frac{\text{Valuation per resident child in district}}{\text{State average valuation per child}} \times .51 \right]$$

Aid ratios vary from 0 in the richest district to 90 percent in the poorest district. The maximum aid ratio of 90 percent was established by law as a prudential principle. Taking the State average valuation per child as $31,500, the figure used in the above formula produced the following aid ratios for State aid paid in the school year 1969-70:

Full Value per Resident WADA In the District	Percent Aid Ratio
$ 5,000	90.0
10,000	83.9
20,000	67.7
30,000	51.5
31,500	49.0
40,000	35.3

In the case of a district with $5,000 full value per resident WADA, the computed aid ratio was actually 92 percent; however, the aid ratio is limited to 90 percent by law. Despite a low aid ratio, operating aid could not be less than $274 per pupil in 1969-70. Since the aid ratio is geared to the State average full valuation per child, a figure which will change from year to year, the aid ratio is cushioned against any statewide change in full valuation and will remain relatively constant from year to year. This should obviate the formula revisions formerly necessary whenever the base year for full valuation changed. The .51 element in the formula, which establishes the overall State-local sharing at 49 percent State and 51 percent local, is the second point where simple revision of the formula is possible if some other proportion of State-local sharing might be preferable. The 1969 Legislature, in fact, changed the State-local sharing to .46-.54 for the 1970-71 school year. The 1970 Legislature, however, repealed the provision, the effect of which would have been to lower all aid ratios and aid.

C. Local Share. To participate fully in the general aid program, a district's "tax rate for aid" (computed by dividing the current year's levy by the full valuation of two years ago) had to be at least as high as the higher of the following: $11 per $1,000 of full valuation, or a rate equivalent to the rate required to meet the local share for base year approved operating expenses, not exceeding the ceiling, of the district of average wealth. For 1969-70 aid, the required tax rate for districts spending at the ceiling or higher was $12.30 per $1,000 of full valuation and ranged down to $11 for districts spending $679 or lower. For 1970-71 aid, because of the increase in ceiling to $860, the required tax rate for districts spending at or above the ceiling, rose to $13.58.

General Aid

General aid is the State's share of the total expenses of the school district, except for the expenses of the special programs for which aid is available. General aid is paid in several parts: operating expenses aid, growth aid, size correction aid, building aid, transportation aid, and high tax aid beginning in 1968-69. It is paid as a total aid, however, and may be used for any purpose for which a board of education may spend money.

A. Operating Expenses Aid. The State reimbursed the school district to the extent of the district's aid ratio, described earlier, for any approved operating expense up to $760 per pupil. Any operating expenditure beyond the ceiling is borne entirely by the school district, except as noted below under size correction aid.

Operating expenses include most expenditures for the day-to-day operation of the regular school program. Excluded are: capital outlay and debt service for school buildings; transportation; tuition payments to other districts; payments for separately aided programs such as school lunch, Boards of Cooperative Educational Services, and county vocational boards; State aid received for specially aided programs; and Federal aid. Included are expenditures for some programs apart from the regular school program, such as adult education and summer schools.

Table 2 illustrates State and local sharing of operating expenditures for a single pupil in districts of varying taxable wealth. If $760 was spent, the local tax effort was $12.30 in all districts with aid ratios between 90 and 36 percent, the minimum guarantee. Because of the 90 prudential element, districts whose taxable per pupil wealth was below $6,174 had to tax themselves more heavily. Conversely, districts with more than $39,533 taxable wealth per pupil had lower tax rates because the minimum aid for operating expenses was $274 regardless of the wealth of the district. As the wealth of a district increases, the local share increases proportionately and the State share decreases. It was thus possible for any district with the exception noted above, no matter how limited its taxable wealth, to provide a program of up to $760 at a local tax rate no higher than those levied in wealthier districts for the same level of program. It is assumed that the added tax levy needed to support the district's transportation and building programs brought the total tax rate up to or beyond the tax rate requirement.

Table 2

State-Local Sharing of Operating Expenses
For Aid in 1969-70, Showing Tax Rates Required
At Three Levels of Expense Per Pupil

Taxable Full Valuation Per Pupil	Percent Aid Ratio For 1969-70 Aid	$760 Per Pupil			$860 Per Pupil			$960 Per Pupil		
		State Aid	Local Share	Tax Rate	State Aid	Local Share	Tax Rate	State Aid	Local Share	Tax Rate
$ 5,000	92.0	$684[a]	$ 76	$15.20	$684[a]	$176	$35.20	$684[a]	$276	$55.[illegible]
6,174	90.0	684[a]	76	12.30	684[a]	176	28.51	684[a]	276	44.[illegible]
10,000	83.9	638	122	12.30	638	222	22.20	638	322	32.20
20,000	67.7	515	245	12.30	515	345	17.25	515	445	22.25
30,000	51.5	391	369	12.30	391	469	15.63	391	569	18.96
39,533	36.0	274[b]	486	12.30	274[b]	586	14.82	274[b]	686	17.38
40,000	35.3	274[b]	486	12.15	274[b]	586	14.65	274[b]	686	17.15

a.Maximum aid (90 percent) for operating expense

b.Minimum aid (flat grant)

The picture changes radically for districts spending above the ceiling, because the amount above ceiling is borne entirely by the local district. In a poor district, it would require a prohibitively high tax rate to support a program which wealthier districts do with comparative ease. This points up the need for periodic revision of the ceiling, lest the poorer districts be restricted to a very low expenditure level.

Table 3 indicates State-local sharing of operating expenses for aid payable in 1970-71 at expenditure levels of $760, $860 (the ceiling), and $960 for districts of varying wealth.

B. Growth Aid. Since operating expenses aid is computed on the basis of the expenditures and the numbers of pupils of the preceding school year, aid is made more nearly current by increasing it to the same degree that the pupils of the first attendance period of the current year exceed the pupils of the first attendance period in the preceding year. For example, a 4 percent increase in pupils would mean a 4 percent increase in operating aid as computed above.

C. Current Budget Aid. Growth aid makes operating aid current as to growth in numbers of pupils. It does not, however, recognize increased operating costs per pupil from the base year to the current year. The 1966 Legislature provided, therefore, for aid based on current operating expenses for districts spending below the operating expense ceiling. This aid was limited to a 7 percent increase in budgeted expenditure per pupil for aid paid in school years 1966-67 and 1967-68. Now, however, the law simply provides that the budgeted increase in per pupil operating expenditure may not exceed the ceiling.

Table 3

State-Local Sharing of Operating Expenses
For Aid in 1970-71, Showing Tax Rates Required
At Three Levels of Expense Per Pupil

Taxable Full Valuation Per Pupil	Percent Aid Ratio For 1970-71 Aid	$760 Per Pupil			$860 Per Pupil			$960 Per Pupil		
		State Aid	Local Share	Tax Rate	State Aid	Local Share	Tax Rate	State Aid	Local Share	Tax Rate
$ 5,000	92.2	$684[a]	$ 76	$15.20	$774[a]	$ 86	$17.20	$774[a]	$186	$37.20
6,334	90.0	684[a]	76	12.00	774[a]	86	13.58	774[a]	186	29.36
10,000	84.3	640	120	12.00	724	136	13.58	724	236	23.60
20,000	68.5	520	240	12.00	588	272	13.58	588	372	18.60
30,000	52.7	400	360	12.00	453	407	13.58	453	507	16.90
40,533	36.0	274[b]	486	12.00	310[b]	550	13.58	310[b]	650	16.04
50,000	21.1	274[b]	486	9.72	310[b]	550	11.00	310[b]	650	13.00

a.Maximum aid (90 percent) for operating expense

b.Minimum aid (flat grant)

D. Size Correction Aid. This aid is paid for the added costs of operating an educational program in small school districts and in densely populated areas. Three main size corrections were in effect in 1969-70.

The 1962 legislation provided that the State would share in $50 per pupil additional operating expenses beyond the $500 ceiling for the first 1,250 pupils. For very small districts the additional aid was relatively large, but poorer districts spending less than $500 per pupil received no size correction aid. The law was consequently amended in 1963 to provide that districts with less than $18,000 full valuation per pupil would receive 10 percent more operating aid for the first 1,250 pupils.

Each time the ceiling has been raised, the sparsity correction has also been changed. When the ceiling was raised to $760 for aid payable in 1968-69, the size correction ceiling was raised to $76 for the first 1,500 pupils.

The 1966 Legislature further provided a density correction for districts with more than 8,000 pupils. Such districts received stipulated per pupil aid for the first 1,500 pupils, plus 60 percent of that amount for pupils in excess of 8,000. Districts received this kind of aid for the first time in 1966-67.

Finally the six largest city school districts[1] receive an additional 17.5 percent of operating and growth aid combined. This recognized such extra costs as educating handicapped and disadvantaged pupils.

[1] Albany, Buffalo, New York City, Rochester, Syracuse, and Yonkers

The 1969 Legislature eliminated all size corrections for 1970-71 aid. Incorporated in the 1970 legislation, however, was either one-half or full 1969-70 size correction aid.

E. Building Aid. All satisfactorily organized school districts are eligible for building aid. The State shares in capital outlay and debt service for school building construction or reconstruction, within established cost limits, by applying to these expenditures the same aid ratio used in determining operating aid, but with no minimum guarantee.

F. Transportation Aid. In 1969-70 the State paid 90 percent of all approved transportation expenditures made in the preceding year. In city districts too, which had not before 1962 been eligible for transportation aid, the State paid 90 percent of approved transportation costs. The 1969 Legislature also changed the method of paying transportation expense aid. Beginning in 1970-71, such aid was to have been paid at aid ratio, with a minimum of 30 percent. This provision was repealed for 1970-71 aid.

G. High Tax Aid. The 1968 Legislature provided, for 1 year only, additional aid to districts with more than 2,000 pupils and an exceptional tax effort relative to local resources. This aid was extended, with some modifications, into the 1969-70 and 1970-71 school years.

H. Overall Guarantees and Limitations. The aid as computed above had to be at least: (a) $304 per pupil or (b) the amount of aid received in 1965-66. These guarantees are referred to respectively as the "minimum guarantee" and the "save harmless" clauses.

Because of the effects of the guarantees and limitations, it has become difficult to divide total aid accurately into its six component parts. Table 4 illustrates the problem. Although the component parts of the formula aid paid to major school districts (8 or more teachers) in 1969-70 totaled $1,918.7 million, the amount of general aid paid was $1,919.2 million. Almost offsetting were "additional" amounts paid because of high tax aid, the save harmless clause, the minimum guarantee, reorganization incentive aid, aid for former districts, aid due in previous years, and reductions due to the valuation and expenditure checks.

The formula described above applied only to the 722 major school districts. Other and older formulas applied to the 20 less-than-8-teacher districts and the 23 wholly contracting districts. (For an extended discussion of the various types of aid paid in 1969-70 and a listing of the amount of each district's general and special aids, see: _State Aid for Elementary and Secondary Education in New York State as Apportioned in 1969-70_, State Education Department.)

Other Aids

Although most aid is paid through the general formula, a number of special aids were paid to school districts in 1969-70. Most of these are temporary, designed to meet the peculiar needs of a limited number of school districts or to explore new educational processes in districts selected by the State Education Department. For most of these aids, specific sums are appropriated each year by the Legislature.

Table 4

Component Parts of General Aid
Paid to Major School Districts in 1969-70
(In Millions of Dollars)

Item	New York City	Rest of State	Total State
Operating Aids			
Operating Expense Aid	$383.5	$1,067.8	$1,451.3
Growth Aid	1.2	27.4	28.6
Size Correction Aid	67.7	58.1	125.8
Current Budget Aid	0	2.8	2.8
TOTAL	452.4	1,156.1	1,608.5
Building Aid	34.1	158.8	192.9
Transportation Aid	27.9	89.4	117.3
Total Formula Aid	514.5	1,404.2	1,918.7
Additional Aid Paid Because Of:			
High Tax Aid	0	13.9	13.9
Incentive Reorganization Aid	0	10.1	10.1
Formula Minimum Grant	0	0.2	0.2
Save Harmless Guarantee	0	0.2	0.2
Adjustments for Prior Years	0	1.4	1.4
Former Districts	0	3.0	3.0
TOTAL	0	28.8	28.8
Loss of Formula Aid Because Of:			
Valuation Check	0	28.2	28.2
Expenditure Check	0	0.1	0.1
TOTAL	0	28.3	28.3
General Aid Paid	514.5	1,404.7	1,919.2

The largest of these programs, in addition to Urban Education, aid to Boards of Cooperative Educational Services, and textbook aid, were aid for the school lunch and milk program and prekindergarten programs for disadvantaged children.

Chapter III

THE IMPACT OF NEW YORK'S STATE AID FORMULA
1961-62 TO 1969-70

This chapter analyzes changes in average per pupil expenditure, State aid, local tax levy, and tax rates between 1961-62 and 1969-70. All of these measures are summarized in Table 5 for the total State, for the State excluding New York City, and, for the latter, by area, by taxable wealth per pupil, and by size of district.

For all major districts, average total expenditures increased $679, or 100.7 percent, to $1,353 in 1969-70. Operating expenditures increased $492 (89.9 percent) from $547 to $1,039. The $333 increase in State aid over the period made possible the large increase in expenditures with an increase in local tax levy per pupil of $282, and an increase of $5.99 in school tax rates.

The pattern is the same but generally less pronounced if New York City is excluded. Then, total expenditures of all other major districts rose $605, or 88.8 percent. Operating expenditures increased $450, or 81.5 percent. An increase of $313 in State aid per pupil enabled the districts to hold the increase in per pupil tax levy to $246; nevertheless, tax rates increased $8.07, or 59.9 percent.

The statewide average per pupil operating expense of $1,039 was $205 above the ceiling of $760 and an average size correction of approximately $74. For the State excluding New York City, $193 was spent for every

Table 5

Average per Pupil Expenditures, State Aid, Local Tax Levy,
and School Tax Rates in Various Classifications of Major School Districts
1961-62 and 1969-70

Districts	# of Dists. 1969-70	Total Expenditures Per WADA[a]			Operating Expenditures Per WADA		
		1961-62	1969-70	Percent Change	1961-62	1969-70	Percent Change
All Major Districts	722	$674	$1,353	100.7	$547	$1,039	89.9
All Major Districts (Excluding New York City)	721	681	1,286	88.8	552	1,002	81.5
Types of Districts							
New York City	1	682	1,512	121.7	535	1,126	110.5
Five Largest Cities (Outside N.Y.C.)	5	567	1,268	123.6	500	957	91.4
Other Cities	56	626	1,218	94.6	547	954	74.4
Suburban Counties (Excl. Cities)[b]	354	738	1,341	81.7	585	1,059	81.0
New York City Suburban Counties[c]	170	801	1,483	85.1	635	1,187	86.9
All Other Suburban Counties	184	655	1,156	76.5	513	894	74.3
Nonsuburban Counties	306	639	1,176	84.0	493	877	77.9
Taxable Wealth per Pupil[d] (Excluding New York City)							
Under $12,000	87	625	1,119	79.0	470	822	74.9
$12,000 to 19,999	258	634	1,161	83.1	492	893	81.5
20,000 to 27,999	153	694	1,242	79.0	554	969	74.9
28,000 to 35,999	79	759	1,310	72.6	617	1,029	66.8
36,000 to 43,999	44	783	1,477	88.6	647	1,147	77.3
44,000 and over	92	962	1,615	67.9	789	1,289	63.4
Size of Districts (Excluding New York City)							
Under 1,200	223	712	1,286	80.6	519	936	80.3
1,200 to 2,399	202	661	1,222	84.9	517	922	78.3
2,400 to 3,599	98	700	1,246	78.0	546	972	78.0
3,600 to 4,799	57	718	1,338	86.4	517	1,059	104.8
4,800 to 5,900	39	711	1,322	85.9	580	1,040	79.3
6,000 and over	101	679	1,300	91.4	567	1,024	80.5

a. Including Federal Fund Expenditures
b. The noncity portions of Standard Metropolitan Statistical Areas
c. Nassau, Suffolk, Westchester, and Rockland Counties, Excluding New York City
d. Excluding Institution Districts

Table 5 (Concluded)

Average per Pupil Expenditures, State Aid, Local Tax Levy,
and School Tax Rates in Various Classifications of Major School Districts
1961-62 and 1969-70

Total State Aid Per WADA			Local Tax Levy Per WADA			School Tax Rate Per $1,000 F.V.		
1961-62	1969-70	Percent Change	1961-62	1969-70	Percent Change	1961-62	1969-70	Percent Change
$277	$610	120.2	$372	$ 654	75.8	$13.43	$19.42	44.6
320	633	97.8	338	584	72.8	13.47	21.54	59.9
203	556	173.9	454	818	80.2	13.37	16.66	24.6
182	509	179.7	356	578	62.4	10.49	15.71	49.8
262	599	128.6	333	536	61.0	13.09	19.56	49.4
331	622	87.9	385	663	72.2	15.17	23.50	54.9
311	588	89.1	458	828	80.8	16.73	25.57	52.8
358	666	86.0	279	449	60.9	12.40	19.69	58.8
399	750	88.0	206	375	82.0	11.62	19.32	66.3
462	896	93.9	123	180	46.3	12.41	18.27	47.2
399	770	93.0	207	340	64.3	12.66	20.91	65.2
314	648	106.4	355	541	52.4	14.25	22.83	60.2
248	554	123.4	485	655	35.1	14.34	21.19	47.8
211	445	110.5	575	831	61.9	13.71	22.57	64.6
224	391	74.6	689	1,155	67.6	10.99	20.56	87.1
412	730	77.2	276	467	69.2	12.68	17.80	40.4
381	736	93.2	275	483	75.6	12.78	20.70	62.0
339	642	89.4	368	563	53.0	13.91	20.91	50.3
333	620	86.2	386	673	74.4	15.08	23.48	55.7
312	591	89.4	391	667	70.6	14.70	21.75	48.0
295	599	103.0	382	602	57.6	15.50	21.91	41.4

pupil beyond the $760 ceiling and an average size correction of $49. This expense was carried entirely by the local district. In effect, therefore, low wealth districts are limited to the ceiling expenditures, plus a varying amount of size correction aid (based on numbers of pupils). Many districts found it desirable to spend more for an adequate educational program. These differences will change each year as the relationship between expenditure levels and the ceiling changes.

Excluding the cities, the pattern of total expenditures, by area, was one of much higher spending in the New York City metropolitan area than in the rest of the State. This contrast was more pronounced in 1969-70 than in the earlier year. In 1961-62, the difference between the high and low spending groups was $162; in the latter year it was $327. The extraordinary growth of total expenditures in the cities, especially in New York City and the "Big Five," resulted from the large infusion of Federal aid since 1965.

The pattern of operating expenditure levels was much the same in the two years. In both years, the New York City suburban districts were the highest spenders; moreover the range between these districts and the low spending nonsuburban districts widened from $142 to $310. The largest gain, $591, was made by New York City, the smallest by the upstate suburban districts.

Reflecting the operation of the State aid formula, the New York City suburban districts received the smallest increases in aid but increased tax levies the most. Nonsuburban districts received the largest increases in aid, while increasing tax levies the least. New York City, because of the changeover to payment of aid on a borough basis and urban aid, received large increases in aid. However, because of large increases in expenditures, per pupil tax levies also advanced substantially. Tax rates per $1,000 of full valuation followed about the same pattern in 1969-70 as in 1961-62, with the New York City suburban districts having the highest and the "Big Five" cities having the lowest. In 1961-62, the range was $6.24; in 1969-70, it was $9.86.

As might be expected when expenditures are analyzed by wealth level, wealthy districts spent more than poor districts and lengthened their lead. In 1961-62, the difference in total spending between the under-$12,000 and the over-$44,000 full valuation per pupil groups was $337; in 1969-70, the difference was $496. This relationship is also true for operating expenditures. There the range between the wealthiest and the poorest districts has lengthened--from $319 in 1961-62 to $467 in 1969-70. The largest dollar increases were made by the two wealthiest groups.

The poorest districts received the most State aid in 1961-62 and still did in 1969-70. In fact, while in 1961-62 such districts received $238 per pupil more than the most wealthy districts, in 1969-70 the difference had risen to $505. The reverse was true of the tax levy. The poorest districts increased their per pupil tax levy only $57, the most wealthy $466. The range between low and high shifted $409, from $566 to $975.

Tax rates, considering expenditure levels, are comparatively low in the under-$12,000 wealth level group. They are highest in the $20,000-$27,999 and $36,000-$43,999 wealth levels. The increase in tax rates for the wealthiest group of districts, between 1961-62 and 1969-70, was the highest of any wealth level.

The amount of aid paid to districts at each wealth level indicates that the present aid formula has a strong equalizing character, more so than the preceding formula. Nevertheless, despite the equalizing effects of State aid (and not all aspects of the formula promote equalization), expenditures are very closely correlated with taxable wealth. The poorest districts tend to be limited to an expenditure level in which the State will share.

The analysis by size of district indicates a rather small range in total expenditure: $57 in 1961-62 compared with $116 in 1969-70. The highest total expenditures were in the 3,600 to 4,799 group of districts. The range in operating expenditures was larger: $63 and $137.

Total State aid per pupil was highest in the smaller districts and decreased with increasing size until the 6,000 and over group was reached. This partially reflected the effect of the sparsity size correction, of greatest advantage to districts with fewer than 1,500 pupils and also, generally, a reflection of greater taxable wealth per pupil. Conversely, tax levies generally increased with size until the 6,000 and over pupil level. Tax rates rose until the 3,600 to 4,799 level was reached, and then declined.

The "Big Five" cities exerted a negative effect on expenditures, State aid, tax levy, and tax rate of the over 6,000 pupil group. When the "Big Five" data are excluded, average total and operating expenditures rose to $1,306 and $1,037, State aid to $616. The tax levy rose only to $607; however, the average tax rate increased sharply to $23.62. With the "Big Five" excluded, the increase of $17 in aid is in part the result of the additional size correction aid for districts with more than 8,000 pupils, and in part the result of lower per pupil wealth.

Chapter IV

FIVE-YEAR TRENDS IN SCHOOL FINANCES

This chapter presents an overview of 5-year trends in average daily attendance, key expenditure items, and school tax levies for the entire State, New York City, and the remainder of the State, on a gross (Table 6) and per pupil basis (Table 7).

Major districts upstate have had a declining pupil growth rate since 1966-67. Much of the increase shown for 1970-71 is transfers from parochial to public schools. The year-to-year pupil totals in New York City followed an erratic course. The gain shown for 1968-69 probably overstated the actual growth, based as it was on an adjustment, in accordance with Chapter 182 of the Law of 1969, for the adverse effects of the 1968 teachers' strike. The sharp decline in 1969-70 reflected the adverse effects of school boycotts, the impacts of the peace movement, and disruptions in a number of high schools. The higher estimate for 1970-71 is based both on higher enrollment and improved attendance.

Total expenditures for public elementary and secondary education, including expenditures from Federal funds, rose from $3,285 million in 1966-67 to an estimated $4,545 million in 1969-70 and will increase to an estimated $5,105 million in 1970-71. This is an average increase of about 12 percent each year. New York City's annual growth rate was slightly less than that for the rest of the State.

Table 6

Five-Year Trends in Pupils and Selected Financial Data
New York State School Districts
1966-67 To 1970-71

		1966-67	1967-68	Percent Increase	1968-69	Percent Increase	1969-70	Percent Increase	1970-71	Percent Increase
I.	Weighted Average Daily Attendance, best attendance periods, in thousands of weighted pupils									
	New York City	1,024	1,025	0.1	1,039	1.4	998	-3.9	1,031	3.3
	Rest of State	2,192	2,255	2.9	2,311	2.5	2,358	2.0	2,391	1.4
	State Total	3,216	3,280	2.0	3,350	2.1	3,356	0.2	3,422	2.0
II.	Total Expenditures, excluding bond money, in millions of dollars									
	New York City	$ 1,141	$ 1,232	8.0	$ 1,380	12.0	$ 1,509	9.4	$ 1,735	15.0
	Rest of State	2,144	2,389	11.4	2,772	16.0	3,036	9.5	3,370	11.0
	State Total	3,285	3,621	10.2	4,152	14.7	4,545	9.5	5,105	12.3
III.	Operating Expenditures, in millions of dollars									
	New York City	$ 853	$ 929	8.9	$ 1,034	11.3	$ 1,124	8.7	$ 1,296	15.3
	Rest of State	1,663	1,867	12.3	2,165	16.0	2,364	9.2	2,610	10.4
	State Total	2,516	2,796	11.1	3,199	14.4	3,488	9.0	3,906	12.0
IV.	Total Debt Service, in millions of dollars									
	New York City	$ 129	$ 140	9.1	$ 143	2.1	$ 143	---	$ 144	0.7
	Rest of State	214	237	10.3	267	12.7	300	12.4	333	11.0
	State Total	343	377	9.8	410	8.8	443	8.0	477	7.7
V.	Total State Aid, excluding school lunch, in millions of dollars									
	New York City	$ 356	$ 413	16.0	$ 559	35.4	$ 555	-0.7	$ 601	8.3
	Rest of State	1,105	1,225	10.9	1,439	17.5	1,493	3.8	1,710	14.5
	State Total	1,461	1,638	12.1	1,998	22.0	2,048	2.5	2,311	12.8
VI.	Local School District Tax Levy, including nonproperty taxes, in millions of dollars									
	New York City	$ 684	$ 725	6.1	$ 774	6.8	$ 817	5.6	$ 953	16.6
	Rest of State	925	1,035	11.8	1,184	14.4	1,380	16.6	1,558	12.9
	State Total	1,609	1,760	9.4	1,958	11.2	2,197	12.2	2,511	14.3
VII.	Full Valuation of Real Property, in millions of dollars									
	New York City	$ 44,338	$ 45,390	2.4	$ 47,197	4.0	$ 49,027	3.9	$ 53,395	8.9
	Rest of State	56,555	58,049	2.6	61,077	5.2	64,238	5.2	70,700	10.1
	State Total	100,893	103,439	2.5	108,274	4.7	113,265	4.6	124,095	9.6

Operating expenditures--the cost of the regular day-to-day program, excluding capital outlay and debt service for school buildings, transportation, and tuition paid to other districts--were $2,516 million in 1966-67. These will probably rise to $3,906 million in 1970-71. Annual average increases here exceed 11.5 percent.

Upstate debt service costs rose from $214 million in 1966-67 to an estimated $333 million in 1970-71, an increase of more than 56 percent in 5 years. The New York City debt service load increased from $129 million in 1966-67 to $143 million in 1969-70, and is expected to reach $144 million in 1970-71, reflecting an expanded school building program.

The major portion of debt service is for school buildings. If the 1969-70 school building aid of $159 million to upstate school districts is deducted from total debt service of $300 million, the amount borne by local taxes is $141 million. Of New York City's debt service of $143 million, approximately $34 million came from State aid and $109 million from local resources.

Total debt service per pupil was $143 in New York City and $127 in the balance of the State (Table 7). The net debt service per pupil--the amount wholly supported by local taxes--was $109 for New York City and $60 for the balance of the State.

Total State aid, exclusive of school lunch aid, amounted to $1,461 million in 1966-67. In 1967-68, even though the ceiling remained at $660, aid rose $177 million to $1,638 million. The 1967-68 upstate increase of

$120 million was large in a year when the ceiling was unchanged. In addition to the normal growth in aid due to increase in pupils, building, transportation, and special aids grew substantially. The increase also included $15 million in lottery aid.

New York City, after a large increase in aid in 1962-63, received little additional aid in 1963-64 and 1964-65 because of small pupil growth and larger increases in full valuation than in the balance of the State. Subsequently, ceiling changes and the introduction of the 17.5 percent size correction led to sizable gains. Most of the 1967-68 increase was due to a $52 million aid payment on a five-borough basis ("borough aid") instead of a citywide district basis for half the year.

The extraordinarily large increase of $360 million in new aid in 1968-69 principally reflected a ceiling increase to $760, urban aid ($28 million of $52 million appropriated urban aid was actually paid, $22 million going to New York City), and borough aid to New York City for the full year.

Measured by the record of recent years, the increase in aid of $51 million in 1969-70 was small. The Legislature did not raise the ceiling; as noted, moreover, it imposed a "valuation check". General aid in 1969-70, including high tax aid, was the amount paid in 1968-69 plus additional aid only to the extent that the increase exceeded one-eighth of one percent ($1.25 per $1,000) of a district's full property valuation. This provision reduced general aid by approximately $28 million.

Total State aid is expected to be $2,311 million in 1970-71, excluding school lunch aid, an increase of $263 million. New York City's share of the increase will be $46 million, the rest of the State, $217 million. Of the two options, the $860 ceiling with reduction in size correction to one-half of the 1969-70 amount was most advantageous to about one-half of the districts. The other half, mainly the smaller districts and the "Big Six" cities, found it more advantageous to calculate aid on a $760 ceiling and receive the additional 10 percent of operating aid and 100 percent of 1969-70 size correction. This was principally so because of the relatively greater importance of size correction aid.

The local district tax levy is, of course, complementary to the total expenditure and State aid trends. In 1962-63, the first year under the present formula, total expenditures increased 12.1 percent; however, because State aid increased 19.3 percent, the local tax levy had to increase only 8.1 percent. In 1963-64 and 1964-65, the balance changed: expenditures increased more rapidly than State aid and local tax levies had to increase more sharply. This occurred because most districts exceeded the $500 ceiling.

As a result of changes in the ceiling in 1965-66 and 1966-67, the balance again changed. In 1965-66, total expenditures rose more than 10 percent while State aid went up 18 percent and tax levies advanced only 5.4 percent. In 1966-67, the pattern was generally the same.

(The addition of Federal fund expenditures makes the increase in total expenditures larger than the increases in State aid and tax levy would indicate.) For 1967-68, the State aid percent increase exceeded that for the tax levy only because of the lottery payment and the $52 million borough aid paid to New York City.

Despite the large increase in aid in 1968-69, upstate districts were forced to raise taxes $149 million because of the abnormally large growth in expenditures. New York City's expenditures increased less rapidly; because of the large increase in aid, the increase in tax was comparatively small.

Even though the very small increase in aid in 1969-70 limited the growth of expenditures to a much smaller amount than in 1968-69, upstate districts were still forced to raise an additional $196 million in taxes. The increase in New York City was a more modest $43 million. And despite the large increase in 1970-71 aid, sizable increases in tax levies will be necessary because of continuing large increases in expenditures, especially in New York City.

The final item in Table 6 shows the growth in full valuation of real property taxable for school purposes. In each year the equalization rates established by the State Board of Equalization and Assessment were used. Hence, these full valuations are those used for tax purposes in the year indicated. In the following year these full valuations are used to compute aid ratios for the apportionment of aid, which in turn is paid a year later. These full valuations, therefore, are those which affect

State aid to be paid 2 years later. This moving back a year in the full valuations makes it possible to use the appropriate equalization rates with each year's assessment rolls because rates will have been completely established before the roll is used for apportionment purposes.

Full valuation increased from $98,041 million to $100,893 million, or 2.9 percent, between 1965-66 and 1966-67, and to $103,439 million, or 2.5 percent, in 1967-68. In 1968-69, the rise was 4.7 percent, to $108,274 million.

In no one year did full valuation, relatively, rise as much as school expenditures. Since school districts depend almost entirely on the property tax, school tax rates must rise steadily despite such State aid adjustments as increases in the State-local sharing ceiling.

Table 7 translates the statewide data presented in Table 6 into per pupil terms and tax rates on full valuation. Again, this arrives at general average figures for the entire State, New York City, and the remainder of the State.

Average total expenditures per pupil increased about 32 percent in the 4 years ending 1969-70 for an average annual increase of almost 10 percent. An estimated increase of 10.2 percent is expected in 1970-71. If Federal funds are removed, the increase in the 4-year period was 34 percent. The expected increase in 1970-71, minus Federal funds, will be only 9.8 percent. It is of interest that New York City will spend almost $154 per pupil from Federal funds in 1970-71, while upstate districts will spend $31 per pupil. This difference reflects the Elementary and Secondary Education Act's emphasis on the education of the disadvantaged.

Table 7

Five-Year Trends in Average per Pupil Expenditures
State Aid, Tax Levy, Tax Rates on Full Valuation,
and Full Valuation per Pupil in New York State
1966-67 To 1970-71

		1966-67	1967-68	Percent Inc.	1968-69	Percent Inc.	1969-70	Percent Inc.	1970-71	Percent Inc.
I.	Total Expenditures per WADA, in dollars									
	New York City	$1,114	$1,202	7.9	$1,329	10.6	$1,512	13.8	$1,683	11.3
	Rest of State	978	1,060	8.4	1,199	13.1	1,287	7.3	1,409	9.5
	State Total	1,022	1,104	8.0	1,240	12.3	1,354	9.2	1,492	10.2
II.	Operating Expenditures per WADA, in dollars									
	New York City	$ 833	$ 906	8.8	$ 996	9.9	$1,126	13.1	$1,257	11.6
	Rest of State	759	828	9.1	937	13.2	1,002	6.9	1,091	8.9
	State Total	782	852	9.0	955	12.1	1,039	8.8	1,141	9.8
III.	Total Debt Service per WADA, in dollars									
	New York City	$ 126	$ 137	8.7	$ 138	0.7	$ 143	3.6	$ 140	-2.1
	Rest of State	98	105	7.1	115	9.5	127	10.4	139	9.4
	State Total	107	115	7.5	122	6.1	132	8.2	139	5.3
IV.	Total State Aid per WADA, in dollars									
	New York City	$ 348	$ 403	15.6	$ 539	33.7	$ 556	3.2	$ 583	4.9
	Rest of State	504	543	7.7	622	14.5	633	1.8	715	13.0
	State Total	454	500	10.1	597	19.4	610	2.2	675	10.7
V.	Tax Levy per WADA, in dollars									
	New York City	$ 668	$ 708	6.0	$ 745	5.2	$ 818	9.8	$ 924	13.0
	Rest of State	422	459	8.8	512	11.5	585	14.3	652	11.5
	State Total	500	537	7.4	584	8.8	654	12.0	734	12.2
VI.	Tax Rate per $1,000 of Full Valuation for School Purposes, in dollars									
	New York City	$15.42	$15.98	3.6	$16.40	2.6	$16.66	1.6	$17.85	7.1
	Rest of State	16.36	17.83	9.0	19.38	8.7	21.48	10.8	22.04	2.6
	State Total	15.95	17.02	6.7	18.08	6.2	19.39	7.2	20.23	4.3
VII.	Full Valuation of Taxable Property per WADA, in thousands of dollars									
	New York City	$ 43.3	$ 44.3	2.3	$ 45.4	2.5	$ 49.1	8.1	$ 51.8	5.5
	Rest of State	25.8	25.7	-0.4	26.4	2.7	27.2	3.0	29.6	8.8
	State Total	31.4	31.5	0.3	32.3	2.5	33.7	4.3	36.3	7.7

Operating expenditures per pupil rose 9 percent to $852 in 1967-68, from $782 in 1966-67. A larger increase, $103 or 12.1 percent, occurred the next year. Operating expenditures reached $1,039 in 1969-70.

New York City has increased its per pupil expenditures substantially in recent years, because of increased State aid and a higher local tax effort. In 1962-63, New York City's operating expenditure rose above the upstate average. Moreover, with the exception of 1966-67 and 1968-69, operating expense increases per pupil exceeded those for upstate districts in all years since then.

Despite the lack of a general increase in aid in 1969-70, operating expenditures per pupil still rose 6.9 percent upstate because of salary increases for professional and nonprofessional staff, and general inflation. The extraordinarily large increase in New York City in 1969-70 was caused not only by the above factors but by the decline in pupils.

Debt service per pupil has increased at an annual average of about 6.8 percent over the period 1966-67 to 1970-71 and has risen from $107 per pupil in 1966-67 to an estimated $139 in 1970-71.

The increase in State aid per pupil between 1963-64 and 1964-65 was a comparatively small $17, or 5.1 percent. With the ceiling increases in the next 2 years, the percent increases rose to 16.4 and 12.4, respectively. In 1967-68, the percent increase declined to 10.1.

The large increase in aid in 1968-69, as already mentioned, was due to the ceiling change, urban education aid, and the shift of New York City to five districts instead of one. Reasons for the comparatively small increase in aid in 1969-70 and for the 1970-71 increase have also been mentioned. The aid received and the expenditures made during any school year are related to the number of pupils in attendance during that school year.

The tax rates per $1,000 of full valuation shown in Table 7 were computed by dividing the total tax levy of all school districts, including nonproperty taxes, by the total full valuation of taxable property. It is, therefore, a measure of total local tax burden for schools. In 1964-65, the average tax rate was $15.25. In 1965-66, the overall average tax rate fell to $15.19, a 0.4 percent decrease. Since then, despite ceiling increases, tax rates have risen steeply.

New York City's tax rate for schools has been consistently less than that of the average upstate district. Its tax rate was $16.40 in 1968-69, while the upstate average was $19.38. While New York City's rate increased only to $16.66 for 1969-70, tax rates upstate again rose steeply, to $21.48.

The last section of Table 7 shows the trend in full valuation per pupil. In 1966-67, the statewide average was $31,400 per pupil. Because the State aid formula provides for the use of the full valuation of the year preceding the base year (or 2 years preceding the payment year), the 1966-67 full valuation was that used in apportioning 1968-69 State aid.

The statewide average full valuation per pupil rose in 1967-68 to $31,500; in 1968-69 to $32,300; and in 1969-70 to $33,700. Therefore, if the school district's full valuation per pupil rises in the same proportion as these statewide averages, the district's aid ratio will remain constant. This is one of the major forward steps in the 1962 State aid law. The district is insulated against the effects of changes in equalization rates, provided the local change in full valuation is similar to the statewide change brought about by the same rate changes.

Chapter V

SCHOOL DISTRICT NORMS

Thus far State aid and school expenditures have been discussed in very broad terms. A statewide average is a convenient way to summarize but does not indicate the great variation among the State's school districts. In the following three tables, attention is paid to these wide variations in each factor studied. These tables should be useful in studying the statewide school support situation, because the extent of the variations among districts is shown; and to individual school districts, because norms are supplied for comparing one district to others of its kind in the State.

In all these tables the percentiles are computed on the basis of school districts, grouped as city, suburban, New York City suburban, other suburban, and nonsuburban districts. The city group includes all city school districts, including city central districts. The suburban group includes all noncity districts in the counties classified by the United States Census as falling within standard metropolitan areas: Nassau, Suffolk, Westchester, and Rockland in the New York City suburban group, and Albany, Broome, Erie, Herkimer, Livingston, Madison, Monroe, Niagara, Oneida, Onondaga, Orleans, Oswego, Rensselaer, Saratoga, Schenectady, Tioga, and Wayne. Nonsuburban districts are all noncity districts in counties other than those named above. Any school district can readily determine its own group and read the norm tables accordingly, to compare itself with similar districts. The above definitions of suburban and nonsuburban misclassify some districts, but serve usefully until better criteria of classification can be devised. As grouped, the school districts are more homogeneous than when grouped by legal type, when central districts ran the whole gamut from large suburban districts to small nonsuburban districts. Actual norms are shown for 1968-69 and 1969-70, and estimates for the school year now in progress, 1970-71.

Table 8, operating expenditure per pupil, clarifies the procedure and aids in the interpretation of all tables. The approved operating expenditure of each district was divided by its number of pupils to arrive at the per pupil expenditure; then, districts were ordered from lowest to highest on per pupil expenditure. Counting up, the expenditure per pupil in the district at the 10th percentile was located, and so on for the other percentiles. This was done for all major upstate districts, and for each of the five groups separately.

Each section of the table, except for New York City, contains five entries for each of 3 years: estimated 1970-71, and actual 1969-70, and 1968-69. The first line of Table 8 should be interpreted as follows: of the 61 city districts in 1970-71, an estimated 10 percent will have

Table 8

Distribution of Per Pupil Operating Expenditures Among Major Districts by Type For Selected Years

	School Year Ending	District Percentiles				
		10	25	50	75	90
Upstate						
A. City Districts	1971	$ 873	$ 948	$ 979	$1,085	$1,280
	1970	786	865	890	982	1,166
	1969	779	817	850	927	1,055
B. Suburban Districts	1971	861	918	1,054	1,319	1,534
	1970	799	853	971	1,201	1,382
	1969	777	826	924	1,077	1,265
1. New York City Suburban Counties	1971	1,030	1,146	1,292	1,493	1,723
	1970	948	1,071	1,201	1,360	1,586
	1969	874	966	1,081	1,239	1,403
2. Other Suburban Counties	1971	841	877	937	1,040	1,104
	1970	777	817	859	938	996
	1969	751	797	837	902	965
C. Nonsuburban Counties	1971	841	868	933	1,011	1,117
	1970	778	813	853	923	1,005
	1969	744	778	818	877	963
All Major Upstate Districts	1971	853	888	973	1,138	1,413
	1970	790	829	895	1,037	1,305
	1969	755	800	857	972	1,164
New York City	1971			1,257		
	1970			1,126		
	1969			996		

operating expenditures per pupil of $873 or less; 15 percent between $873 and $948; 25 percent between $948 and $979; 25 percent between $979 and $1,985; 15 percent between $1,085 and $1,280; and 10 percent $1,280 or higher. The median expenditure of these districts is $979. New York City, because of its size, is tabulated separately at the bottom of the page.

Operating expenditure per pupil is probably the best objective measure presently available of the quality of a school district's educational program. For all major upstate districts, after several years of comparatively small increases, the median rose from $635 to $701 between 1965-66 and 1966-67, and to $764 in 1967-68. The large increase of $93 in 1968-69 occurred in a year when both aid and tax levies were increased substantially. The smaller increase in 1969-70 was met always almost by tax increases.

New York City spends considerably more than other districts, except those in the immediate surrounding counties, and in 1969-70 spent at the 81st percentile of upstate districts. Because its taxable real property per pupil is comparable to those of upstate districts at the 91st percentile, its expenditure level is about as expected.

New York City suburban districts consistently spend at a much higher level than other districts. City districts are next followed by other suburban and nonsuburban districts. Downstate suburban districts tend to have greater taxable wealth per pupil than other suburban and non-suburban districts. Tax resources are therefore an important factor in school expenditure, but so also is the value placed upon education by the community--its educational expectancy. New York City metropolitan area districts, especially, because of their population characteristics, are likely to place a high value on education and allocate tax resources to it.

Table 9 shows the 3-year trend in the total amount of State aid received per pupil, again calculated at various district percentiles. The pupil units are those of the year the aid was received, making the resulting quotient more meaningful to the school district than figures derived from the year the aid was "earned."

For all major upstate districts, the median State aid per pupil was $454 in 1964-65. With an increase in the ceiling to $600 in 1965-66, the median rose to $512. In 1966-67, with the $660 ceiling in effect, the median State aid per pupil rose $56 to $568. With the same ceiling in effect for school year 1967-68, the increase was only $40, and would have been much less had this figure not included lottery aid, substantial increases in textbook and Boards of Cooperative Educational Services aids, and other special aids. Because of the ceiling increase to $760, median aid per pupil rose to $699 in 1968-69. In 1969-70, the median aid rose only to $704. As previously noted, the small increase was due not only to the lack of any new or expanded aids, but also to an actual limitation in the "normal" growth in aid. Because of increases in aid in 1970-71, the median is expected to rise to $796.

Table 9

Distribution of Per Pupil State Aid
Among Major Districts by Type
For Selected Years

	School Year Ending	District Percentiles				
		10	25	50	75	90
Upstate						
A. City Districts	1971	$442	$612	$694	$761	$ 845
	1970	393	516	608	681	736
	1969	376	512	599	647	751
B. Suburban Districts	1971	457	569	715	834	915
	1970	384	489	631	758	832
	1969	376	480	628	747	823
1. New York City Suburban Counties	1971	423	473	591	707	788
	1970	354	406	521	631	718
	1969	348	394	518	619	712
2. Other Suburban Counties	1971	580	705	831	910	971
	1970	497	621	739	813	879
	1969	484	618	728	810	850
C. Nonsuburban Counties	1971	588	772	870	951	1,002
	1970	513	691	785	858	922
	1969	522	682	772	845	905
All Major Upstate Districts	1971	483	632	796	897	964
	1970	408	552	704	807	886
	1969	404	546	699	797	868
New York City	1971			583		
	1970			556		
	1969			539		

New York City's per pupil aid actually decreased between 1962-63 and 1963-64, primarily because the full valuation per child increased much more rapidly than upstate. In 1964-65, aid per pupil rose slightly because of increased transportation, size correction, and an added 3 percent of operating aid. These three factors more than compensated for an increase in full valuation per pupil. Aid per pupil rose from $257 to $307 in 1965-66 because of the rise in the ceiling and increase in size correction aid. Aid increased again in 1966-67 due to an increased ceiling. The increase for 1967-68 is due almost wholly to the shift to a five borough school district. As a result of the ceiling increase, being paid as five districts rather than one, and urban aid, New York City's per pupil aid rose an unusually large $135 to $539 in 1968-69. The increase of $17 per pupil in 1969-70 was due to the sharp decline in attendance. Actually the City received $4 million less aid in 1969-70 than in the previous year.

As to types of districts, nonsuburban districts receive the largest amount of State aid per pupil because of the operation of the equalization principle. Their taxable wealth per child is lower than in the other types of districts. Many of these districts are also so small that the size correction brings them an appreciable increase in aid. Upstate suburban districts receive the next highest amounts of aid, followed by city districts and New York City suburban districts. New York City, because of its greater wealth, typically receives less aid per child than any of the upstate groups; in 1968-69, however, per pupil aid surpassed the median for the four surrounding counties due to the shift to five districts and of urban education aid.

Table 10 shows the norms for school tax rates per $1,000 of full valuation in major school districts over the 3-year period. The 1970-71 tax rates are estimated. Tax rates for the other years were determined by dividing the actual levy, including the yield of any nonproperty tax used, by the full valuation obtained from the appropriate equalization rates.

Between 1962-63 and 1963-64, the upstate median tax rate increased only 29 cents, to $13.37. The next year, with no new State aid except for normal growth and an additional 3 percent in operating aid, the median tax rate rose to $13.97. In 1965-66, with a large increase in State aid, the median tax rate rose to only $14.01. However, in the following year, despite another increase in the ceiling, the tax rate increased to $14.66. In 1967-68, with the ceiling stable, the median rose $1.41 to $16.07. Because of an unusually large increase in expenditures, State aid, tax levies, and tax rates rose substantially. The median tax rate for 1968-69 was $17.68. Another large increase to $19.63 was recorded in 1969-70. The comparatively small median upstate tax increase for 1970-71 reflects the inflationary expansion of full valuation of real property

New York City's tax effort, until 1967-68, was somewhat greater than the upstate median. After falling between 1962-63 and 1963-64, a sizeable increase of $1.41 to $15.19 was necessary the next year. Another drop in 1965-66, to $15.04, was followed by an increase to $15.45 in 1966-67.

Table 10

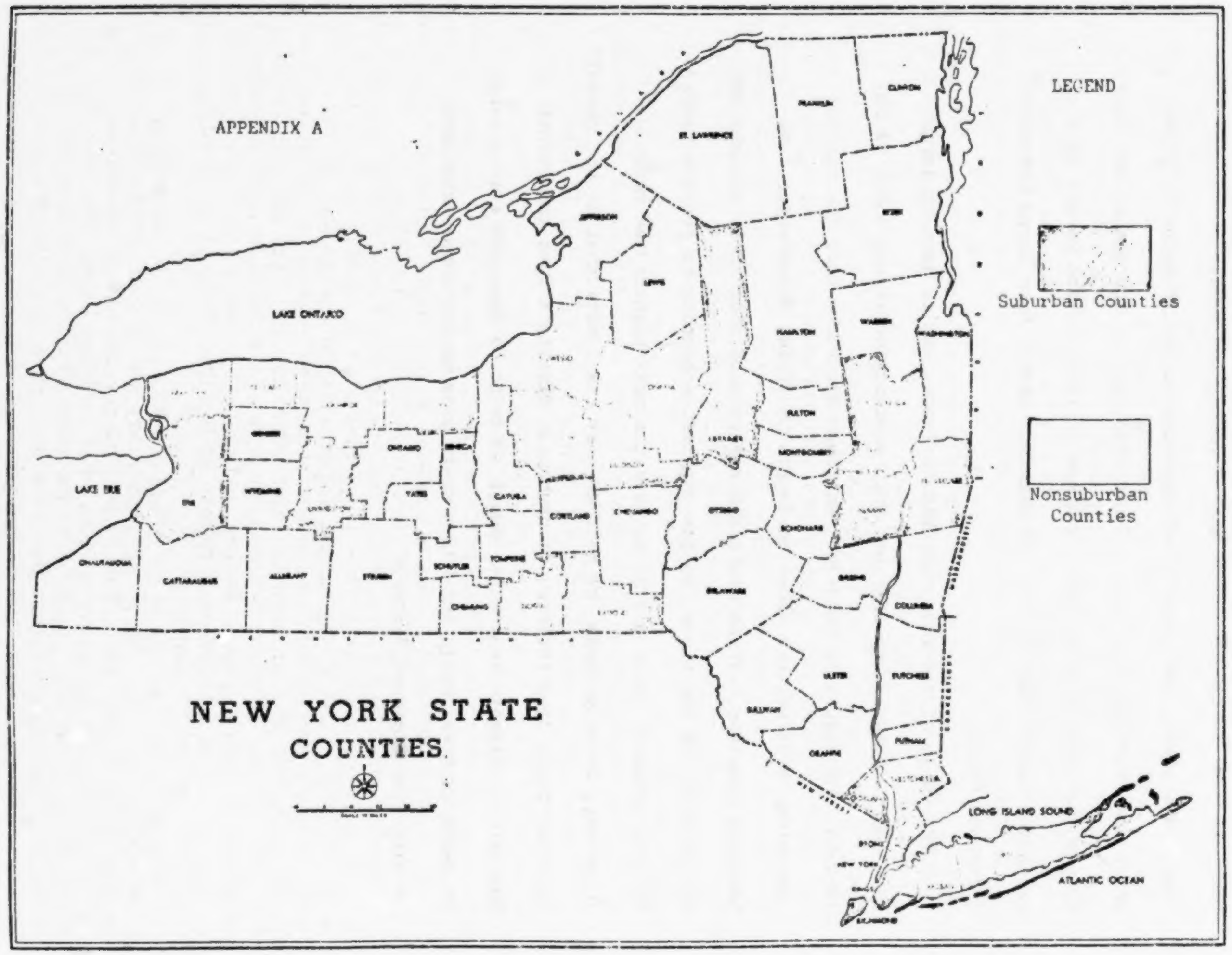
Distribution of School Tax Rates Per $1,000 of Full Value Among Major Districts by Type For Selected Years

	School Year Ending	District Percentiles 10	25	50	75	90
Upstate						
A. City Districts	1971	$13.57	$16.42	$19.75	$22.00	$24.05
	1970	13.15	15.82	19.18	21.15	22.76
	1969	12.33	14.81	16.78	18.98	21.07
B. Suburban Districts	1971	15.32	18.21	22.18	25.92	31.04
	1970	14.94	17.60	21.42	25.16	29.53
	1969	13.86	16.45	19.87	22.47	25.40
1. New York City Suburban Counties	1971	16.64	23.12	26.42	29.97	33.40
	1970	15.91	22.22	25.33	28.59	31.64
	1969	13.81	19.28	22.20	24.98	27.72
2. Other Suburban Counties	1971	15.40	17.28	19.84	22.24	24.02
	1970	14.92	16.91	19.32	21.48	23.44
	1969	13.83	15.42	17.90	20.23	22.05
C. Nonsuburban Counties	1971	14.36	15.99	18.70	21.63	25.34
	1970	13.98	15.60	18.13	20.93	24.03
	1969	12.04	14.03	16.15	18.50	21.35
All Major Upstate Districts	1971	14.67	16.86	20.20	23.93	28.64
	1970	14.29	16.52	19.64	23.17	27.13
	1969	12.62	15.00	17.68	20.81	24.22
New York City	1971			17.85		
	1970			16.66		
	1969			16.40		

The rate rose to $16,40 in the next 2 years, and to $16.66 in 1969-70. Thus, in 4 years, the upstate median rose from $0.79 below to $2.98 above the New York City rate. Unlike the rest of the State, New York City's tax rate increase will be large in 1970-71, the result of a relatively small increase in aid combined with a very large increase in expenditures.

The range of tax rates upstate is large, and is getting larger each year. Between the 10th and 90th percentiles it was about $9 in 1962-63, and $12.84 in 1969-70. Suburban districts have the highest tax rates, particularly those in Nassau, Suffolk, Westchester, and Rockland Counties. These districts expect much from their schools and are willing, if not eager, to tax themselves heavily to provide funds for the schools. City districts have the next highest tax rates. These may, in many cases, be held down by tax limits that do not prevail in other types of districts. Nonsuburban districts have the lowest tax rates. Taxable wealth per pupil tends to be low, and even a large increase in taxes would not bring their program much above the level at which the State will share.

APPENDIX A


LEGEND
Suburban Counties
Nonsuburban Counties
NEW YORK STATE
COUNTIES
LAKE ONTARIO
LAKE ERIE
ST. LAWRENCE
FRANKLIN
CLINTON
ESSEX
JEFFERSON
LEWIS
HAMILTON
WARREN
WASHINGTON
OSWEGO
ONEIDA
HERKIMER
FULTON
MONTGOMERY
ALBANY
RENSSELAER
GENESEE
WYOMING
ERIE
LIVINGSTON
ONTARIO
SENECA
YATES
CAYUGA
CORTLAND
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DELAWARE
GREENE
COLUMBIA
ULSTER
DUTCHESS
SULLIVAN
ORANGE
PUTNAM
WESTCHESTER
BRONX
NEW YORK
KINGS
RICHMOND
NEW JERSEY
PENNSYLVANIA
LONG ISLAND SOUND
ATLANTIC OCEAN

[The Congressional Record, Mar. 23, 1971]

LEGISLATION TO EASE LOCAL PROPERTY TAX BURDEN FOR LOCAL EDUCATIONAL COSTS

(Mr. DOW asked and was given permission to extend his remarks at this point in the RECORD and to include extraneous matter.)

Mr. DOW. Mr. Speaker, today I am introducing legislation to fill a vital financial need for elementary and secondary schools. My proposal is a Federal inducement to the States so that they will assume the cost of financing public elementary and secondary education as a State function, and gradually relieve localities of this burden. My plan is that the Federal Government reimburse each State for 50 percent of the increased cost above the local share which it assumes from one year to the next.

The bill's formula is intended to reduce the local property tax, by some or all of the 55 percent of the total cost, nationwide, for public elementary and secondary schools which that tax is now bearing.

Taxes for support of elementary and secondary schools are historically levied on real estate. More and more, this regressive type of taxation is coming under widespread criticism that is not limited to any State boundary.

The present school tax based on real estate contains the unfairness inherent in the assessment process. Real estate tax assessments are subject to deliberate bias and favoritism, and unrealistically low values from the distant past are often frozen in. The tax assessor's judgment is always in question. Moreover, his judgment is inexact because there is no dollar-and-cents foundation for property assessment. When income is the base for tax, the income is declared and known down to the penny.

Coupled with problem in the method of assessment, is the gross disparity in the tax base available from one community to another. It deprives some children and perhaps even surfeits others. The Advisory Commission on Intergovernmental Relations in their April 1969 report titled, "State Aid To Local Government," points out that the ratio of high to low ability to pay is as much as 66 to 1 in one of our States. In a number of other States the ratio is startling.

The inelasticity of the present system of taxing real estate for school support is a major shortcoming. The property tax base, unlike a tax on income, expands very slowly and does not follow the business or income cycle. Another drawback in the present universal school tax system is the undue burden it has proven to be for elderly people. Many of these come to the end of their days with their sole equity being their homes. Still, they are heavily taxed to hold this precious saving at the period in their lives when they are not sending children to school.

Mr. Speaker, I find a widespread disenchantment everywhere in this country, with the heavy and inequitable burden represented by school taxes on real estate. Practically, this is a problem for each State to solve. Yet the attitude of our tax-paying public in many States is such, and the inequities of the school tax so universal, that I urge a Federal inducement to move this incubus which is so prevalent and to propose a release of localities from their ill-adjusted and inequitable school tax burden.

The inducement formula in my bill is computed from the increased percentage of education assistance for public elementary and secondary education assumed by the State in any year. The Federal Government will reimburse the State for 50 percent of the increase from year to year. Under this plan any State whose educational effort relative to the local effort is increased will gain. The formula would apply whether the State went from providing 8.9 percent of the educational aid as in the case of New Hampshire to any higher percentage.

The significant fact is that to qualify for this aid the local share could not be increased relative to the State share. At the end of my remarks I have enclosed a table for all States which gives the most recent figures of effort expended by all three levels of Government—Federal, State, and local—to demonstrate that the inducement formula will apply in all cases even where there are great variances in the State and local share.

The States would, under my plan, progressively assume more or all of the local school costs in return for a 50 percent, one time, Federal bonus in consideration of their action. Most certainly the consequence would be a rise in the State's income tax levy. This, of course, is a progressive, not regressive, tax and one that falls with some weight and justice on all income earners, including large industrial corporations. Heretofore, these enterprises have been relatively free of school taxes or, at best, subjected to them in a haphazard and incidental manner that relates to the chance locations of industrial enterprises.

Further, such enterprises have been irregularly and inconsistently favored by low assessments inducing them to locate or stay in accommodating communities. This, in itself, is a still further example of shortcoming within the present school tax system. For properties other than the industrial favorites now have to suffer the added burden of the favors so granted.

My bill offers the States the option of electing to move very quickly to assume the total education costs, thereby qualifying for a large Federal payment or gradually, in which case, the Federal assistance would be spread over a longer period of time.

I do not feel that the Federal Government should underwrite the bulk of State education financing. My proposal is directed at the local property tax which is a very inadequate and antiquated vehicle to use for the funding of our educational systems. Local people in many States like New York are seriously strapped by this tax. The percentage distribution of local funds has been more or less constant since the mid-forties. For 1945–46 the percentage distribution was: Federal, 1.4 percent; State, 34.7 percent; and local 63.8 percent. These figures for 1970–71 are estimated to be: Federal, 7.5 percent; State 37 percent; and local 55.5 percent.

The bill, as I have remarked earlier, would encourage States to pick up a greater tax share and discourage reliance on the local property tax. This view is supported by the Advisory Commission on Intergovernmental Relations which has prepared a model bill for State legislatures. The amount of funds that would be required from the Federal Treasury for my proposal would be based on the increase of State contribution compared with that of the local share. To keep the limit within bounds the bill places a ceiling of no more that $100 per pupil in any 1 year. Therefore, if the total number of pupils in elementary and secondary education, 51,581,000, were each entitled to $100 the total Federal cost of the bill would be $5 billion. This would, in practice, no doubt be spread over a number of years. It would be a one time outlay.

State assumption of the primary responsibility for public elementary and secondary school financing is a practical way of achieving a substantial parity of resources behind each pupil within a State. It would eliminate the disparities now prevalent between school districts which are caused by the great variations in both wealth and the willingness to tax.

Continued reliance on the property tax for local school support seriously contributes to fiscal tensions in the intergovernmental financing systems. Since the mid-forties, local schools have increased their share of receipts from local property taxes from less than one-third to slightly more than one-half of all local property tax revenue. This means that other local services which should be borne by local revenue sources have become secondary claimants in the competition for this tax source.

I feel that this legislation would provide the required incentive to the States to pick up the education burden. The formula in the legislation allows a State to ease towards this goal or move much more rapidly. The key factor being that State tax dollars would be substituted for local tax dollars.

This legislation creates a twofold advantage. It will reduce the pressure on the local property tax while providing public education with a tax base of greater growth potential. A statewide assumption of this burden would tend to equalize the educational advantages provided within the State, yet preserve the local interest demonstrated by local citizens concerned with school board and administrative problems. No student should be denied an adequate educational opportunity merely because he or she resides in a particular area within a State, nor should property-owning citizens be unduly penalized because there is a limited tax base to draw on for educational services.

The local property tax under this proposal would then be freed for those local services such as police, fire, water and sewer, roadways and other municipal services.

In this way, I feel our citizens will better understand who is responsible at each level for providing the services.

As all taxpayers are aware, Government funds are not limitless, they have to come from somewhere. Today our citizens are truly up to their necks in taxes of all kinds. The Federal Government does not have unlimited funds, nor do I believe it should assume more than a fraction of education costs. My bill offers the inducement, the incentive, to shift one cost to the State. It does not create any marked dependence on Washington on Federal moneys but allows for reordering services to the governmental levels that should be responsible.

The principal objection I have heard to the plan contained in my school tax bill is the presumption that local school boards, if no longer responsible for raising school taxes, would lose local control of their educational systems, and that there would be a State takeover. To this criticism, I reply that in my own State of New York the State now provides 45 percent of the school support. With that much leverage the State could exert immense influence on local school decisions, even today; but it does not. Why? It does not for one reason, because the State legislature made up of local representatives would not allow it and, second, that is not the nature of our educational system. Nobody wants it that way.

Moreover, a great part of local school costs are now mandated by State law. At least that is so in New York State. The latitude of local school boards in the fiscal area is not really very great, even as matters are today.

A wholesome State oversight is to be desired and I believe it does exist in the many States which now carry a high percentage of school costs. But I have not heard that such control is anywhere preemptive of all school related decisions.

The States which assume 50 percent of the cost of public education at the elementary and seondary level and comply in other respects, also have the option, under my bill, of electing to take the total of educational programs for which they are now eligible in the form of a block grant and administering the total money to which they are entitled under the separate programs as they feel it can best be utilized.

The text of my bill follows:

A bill to encourage States to increase the proportion of the expenditures in the States for public education which are derived from State rather than local revenue sources

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Elementary and Secondary Education Act of 1965 is amended by inserting after title V the following new title VI:

"TITLE VI—STATE ASSISTANCE

"PART A—DIRECT ASSISTANCE

"ELIGIBILITY FOR DIRECT ASSISTANCE

"SEC. 601. A State shall be eligible for direct assistance under this part for a fiscal year if the State educational agency applies therefor and the Commissioner (on the basis of information provided by such agency) determines that under applicable statutory or constitutional provisions, or in practice at least 50 per centum of the financial support for elementary and secondary education in such State is provided from State revenues. In making his determinations required by this section, the Commissioner shall disregard payments from Federal sources.

"AMOUNT OF DIRECT ASSISTANCE

"SEC. 602. (a) The amount of direct financial assistance to be paid to a State which is eligible therefor under section 601 shall be equal to the amount the Commissioner determines a State and its political subdivisions (including local educational agencies) would receive under the provisions of law listed in subsection (c) for that year but for the decision of the State educational agency to obtain direct financial assistance under this part.

"(b) No payments shall be made under any of the provisions of law listed in subsection (c) to a State or its political subdivisions (including local educational agencies) for any year for which such State receives direct assistance under this part.

"(c) The provisions of law referred to in subsections (a) and (b) are the following:

"(1) Title I of the Elementary and secondary Education Act of 1965.
"(2) Titles II, III, V, and VII of the Elementary and Secondary Education Act of 1965.
"(3) Titles III, V, and VI of the National Defense Education Act of 1958.
"(4) The Vocational Educational Act of 1963.
"(5) The Vocational Educational Act of 1946.
"(6) The Adult Education Act.
"(7) The Education of the Handicapped Act.

"USES OF DIRECT ASSISTANCE

"SEC. 603. (a) Funds granted a State under this part shall be used for support of elementary and secondary education in that State without regard to the purposes for which funds could be used under the provisions of law listed in section 602(c).

"(b) As a condition to the receipt of funds under this part, the Commissioner may require the adoption of such fiscal control and fund accounting procedures as may be necessary to assure proper disbursement of, and accounting for, Federal funds paid to the State (including any such funds paid by the State to any other public agency under this part).

"PART B—GRANTS FOR INCREASING STATE SUPPORT FOR ELEMENTARY AND SECONDARY EDUCATION

"ELIGIBILITY FOR GRANTS

"SEC. 611. A State shall be eligible for a grant under this part for any fiscal year if the State education agency applies therefor and the Commissioner (on the basis of information provided by such agency) determines (1) that the State has increased the percentage of its expenditures for elementary and secondary education which are derived from State rather than local revenue sources during the preceding fiscal year over such percentage for the second preceding fiscal year, and (2) the average per pupil expenditure in the State (as defined in section 103(e) of title I of this Act) for such year is not less than such expenditure for the preceding fiscal year.

"AMOUNT OF GRANT

"SEC. 612. (a) Subject to the provisions of subsection (b) and section 614, grants under this part shall be determined as follows: Where the State school expenditures of a State in the preceding fiscal year exceed such expenditures for the second preceding fiscal year, the grant to the State under this part shall be equal to 50 per centum of such excess, except that such excess shall be (1) reduced by the amount by which local school expenditures of the State in the preceding fiscal year exceed such expenditures for the second preceding fiscal year, or (2) increased by the amount by which such expenditures for the preceding fiscal year are less than such expenditures for the second preceding fiscal year, as the case may be. If both the State and the local school expenditures of a State in the preceding fiscal year are less than such expenditures in the second preceding fiscal year, and the reduction in the local school expenditures exceeds the reduction in State school expenditures, then the grant to the State under this part shall be equal to 50 per centum of the difference between the reduction in local school expenditures and the reduction in State school expenditures.

"(b) The grant to a State for a fiscal year shall not exceed $100 times the enrollment in elementary and secondary schools in the State in the preceding fiscal year.

"(c) For purposes of this section, 'State school expenditures' means expenditures for public elementary and secondary education in the State from funds derived from State revenue sources, and 'local school expenditures' means expenditures for public elementary and secondary education in the State from funds derived from local revenue sources.

"USES OF GRANTS

"SEC. 613. Funds granted a State under this part shall be used only for support of elementary and secondary education in that State. As a condition to the receipt of funds under this part the Commissioner may require the adoption of such fiscal control for the accounting procedures as may be necessary to assure proper disbursement of, and accounting for, funds paid to the State (including any such funds paid by the State to any other public agency under this part).

"ADJUSTMENTS ON ACCOUNT OF APPROPRIATIONS

"SEC. 614. In the event the funds appropriated to carry out this part for a fiscal year are insufficient to make in full the grants to which the States are entitled, the grant to each of the States eligible for a grant shall be reduced pro rata."

TABLE 91.—ESTIMATED REVENUE RECEIPTS FOR ELEMENTARY AND SECONDARY SCHOOLS, BY GOVERNMENTAL SOURCE, BY STATE, 1969–70

State and region	Revenue receipts by source (in thousands)				Percent of revenue receipts by source[1]				
					Total			Excluding Federal	
	Federal[2]	State	Local and other[3]	Total	Federal[2]	State	Local	State	Lccal
50 States and District of Columbia	$2, 556, 167	$15, 617, 379	$20, 078, 292	$38, 251, 838	6.7	40.8	52.5	43.7	56.3
New England	112, 171	570, 199	1, 458, 707	2, 141, 077	5.2	26.6	68.1	28.1	71.9
Maine[4]	9, 400	78, 500	87, 100	175, 000	5.4	44.9	49.8	47.4	52.6
New Hampshire[5]	4, 670	9, 400	96, 068	110, 138	4.2	8.5	87.2	8.9	91.1
Vermont	2, 432	21, 040	50, 193	73, 665	3.3	28.6	68.1	29.5	70.5
Massachusetts	60, 000	200, 000	738, 400	998, 400	6.0	20.0	74.0	21.3	78.7
Rhode Island	11, 969	51, 259	85, 446	148, 674	8.1	34.5	57.5	37.5	62.5
Connecticut	23, 700	210, 000	401, 500	635, 200	3.7	33.1	63.2	34.4	65.6
Mideast	478, 034	3, 928, 170	5, 057, 350	9, 463, 554	5.1	41.5	53.4	43.7	56.3
New York	160, 000	2, 071, 000	3, 329, 000	4, 560, 000	3.5	45.4	51.1	47.1	52.9
New Jersey	64, 000	429, 000	1, 010, 000	1, 503, 000	4.3	28.5	67.2	29.8	70.2
Pennsylvania	127, 631	1, 039, 369	1, 047, 268	2, 214, 268	5.8	46.9	47.3	49.8	50.2
Delaware	9, 405	87, 900	27, 200	124, 505	7.6	70.6	21.8	76.4	23.6
Maryland[6]	54, 698	300, 901	500, 182	855, 781	6.4	35.2	58.4	37.6	62.4
District of Columbia[7] [8]	62, 300		143, 700	206, 000	30.2		69.8		100.0
Great Lakes	336, 936	2, 744, 581	4, 620, 394	7, 701, 911	4.4	35.6	60.0	37.3	62.71
Michigan	67, 000	770, 000	870, 708	1, 707, 708	3.9	45.1	51.0	46.9	53.1
Ohio	83, 000	560, 000	1, 130, 100	1, 773, 100	4.7	31.6	63.7	33.1	66.9
Indiana	41, 800	360, 000	628, 300	1, 030, 100	4.1	34.9	61.0	36.4	63.6
Illinois	116, 852	797, 649	1, 401, 217	2, 315, 718	5.0	34.4	60.5	36.3	63.7
Wisconsin	28, 284	256, 932	590, 069	875, 285	3.2	29.4	67.4	30.3	69.7
Plains	180, 113	997, 767	1, 840, 508	3, 018, 388	6.0	33.1	61.0	35.2	64.8
Minnesota	45, 000	365, 000	431, 000	841, 000	5.4	43.4	51.2	45.9	54.1
Iowa[9]	22, 100	167, 000	365, 158	554, 258	4.0	30.1	65.9	31.4	68.6
Missouri	46, 351	255, 972	439, 000	741, 323	6.3	34.5	59.2	36.8	63.2
North Dakota	7, 400	28, 500	69, 000	104, 900	7.1	27.2	65.8	29.2	70.8
South Dakota	12, 000	14, 500	80, 000	106, 500	11.3	13.6	75.1	15.3	84.7
Nebraska	13, 550	42, 378	156, 000	211, 928	6.4	20.0	73.6	21.4	78.6
Kansas	33, 712	124, 417	300, 350	458, 479	7.4	27.1	65.5	29.3	70.7

Footnotes at end of table.

TABLE 91.—ESTIMATED REVENUE RECEIPTS FOR ELEMENTARY AND SECONDARY SCHOOLS, BY GOVERNMENTAL SOURCE, BY STATE, 1969–70—Continued

State and region	Revenue receipts by source (in thousands)				Percent of revenue receipts by source [1]				
					Total			Excluding Federal	
	Federal [2]	State	Local and other [3]	Total	Federal [2]	State	Local	State	Local
Southeast	763, 700	3, 593, 323	2, 173, 370	6, 530, 393	11. 7	55. 0	33. 3	62. 3	37. 7
Virginia	75, 000	300, 000	445, 000	820, 000	9. 1	36. 6	54. 3	40. 3	59. 7
West Virginia	34, 500	134, 500	110, 000	279, 000	12. 4	48. 2	39. 4	55. 0	45. 0
Kentucky	61, 700	235, 000	150, 000	446, 700	13. 8	52. 6	33. 6	61. 0	39. 0
Tennessee	54, 000	257, 000	210, 400	521, 400	10. 4	49. 3	40. 4	55. 0	45. 0
North Carolina	87, 146	571, 559	147, 000	805, 705	10. 8	70. 9	18. 2	79. 5	20. 5
South Carolina	52, 774	245, 000	100, 000	397, 774	13. 3	61. 6	25. 1	71. 0	29. 0
Georgia	68, 157	377, 546	197, 086	642, 789	10. 6	58. 7	30. 7	65. 7	34. 3
Florida	98, 435	608, 727	370, 185	1, 077, 347	9. 1	56. 5	34. 4	62. 2	37. 7
Alabama [10]	59, 144	257, 717	92, 000	408, 861	14. 5	63. 0	22. 5	73. 7	26. 3
Mississippi	69, 000	162, 000	83, 000	314, 000	22. 0	51. 6	26. 4	66. 1	33. 9
Louisiana	61, 680	331, 890	176, 000	569, 570	10. 8	58. 3	30. 9	65. 3	34. 7
Arkansas	42, 164	112, 384	92, 699	247, 247	17. 1	45. 5	37. 5	54. 8	45. 2
Southwest	270, 334	1, 176, 235	1, 034, 441	2, 481, 010	10. 9	47. 4	41. 7	53. 2	46. 8
Oklahoma	35, 000	142, 934	172, 000	349, 934	10. 0	40. 8	49. 2	45. 4	54. 6
Texas [11]	176, 449	740, 000	663, 000	1, 579, 449	11. 2	46. 9	42. 0	52. 7	47. 3
New Mexico	28, 659	128, 174	47, 511	204, 344	14. 0	62. 7	23. 3	73. 0	27. 0
Arizona	30, 226	165, 127	151, 930	347, 283	8. 7	47. 5	43. 7	52. 1	47. 9
Rocky Mountain	72, 750	332, 115	567, 258	972, 123	7. 5	34. 2	58. 4	36. 9	63. 1
Montana	8, 500	45, 000	92, 000	145, 500	5. 8	30. 9	63. 2	32. 8	67. 2
Idaho	9, 100	51, 000	58, 000	118, 100	7. 7	43. 2	49. 1	46. 8	53. 2
Wyoming [12]	16, 200	18, 500	38, 000	72, 700	22. 3	25. 4	52. 3	32. 7	67. 3
Colorado	26, 900	106, 000	285, 800	418, 700	6. 4	25. 3	68. 3	27. 1	72. 9
Utah	12, 050	111, 615	93, 458	217, 123	5. 5	51. 4	43. 0	54. 4	45. 6

Far West	303, 970	2, 087, 500	3, 292, 600	5, 684, 070	5.3	36.7	57.9	38.8	61.2
Washington	40, 270	400, 000	240, 000	680, 270	5.9	58.8	35.3	62.5	37.5
Oregon	27, 500	97, 000	346, 000	470, 500	5.8	20.6	73.5	21.9	78.1
Nevada	6, 200	40, 500	56, 600	103, 300	6.0	39.2	54.8	41.7	56.3
California	230, 000	1, 550, 000	2, 650, 000	4, 430, 000	5.2	35.0	59.8	36.9	63.1
Alaska	22, 659	38, 489	26, 964	88, 112	25.7	43.7	30.6	58.8	41.2
Hawaii	15, 500	149, 000	6, 700	171, 200	9.1	87.0	3.9	95.7	4.3

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[1] Percent may not add up to 100 because of rounding.

[2] Includes Federal grant programs to State and local school systems, including funds under the Elementary and Secondary Education Act, Economic Opportunity Act, aid to federally impacted areas, National Defense Education Act, manpower development and training, vocational education, etc. Funds received from the school lunch and milk program are included, but reporting on the money value of commodities received is incomplete. ESEA revenues have generally been estimated on a cash expenditure basis.

[3] Includes revenue receipts from local and intermediate sources, gifts, and tuititon and fees from patrons.

[4] Includes special State appropriation of $21,500,000 to change fiscal year of school districts.

[5] Excludes State's share of teacher retirement and social security.

[6] Excludes revenues for public junior colleges as this responsibility was transferred from State department to education.

[7] Estimated by NEA Research Division.

[8] Federal revenue receipts include Federal appropriations for capital outlay, civil defense, Capital Page School, and other federally funded programs listed in footnote 2 above.

[9] Includes State appropriation for area vocational schools and junior colleges not the responsibility of local school districts.

[10] State revenue receipts include social security and teacher retirement for all educational agencies and institutions.

[11] Excludes revenues for kindergartens.

[12] Federal revenue includes $9,000,000 oil royalties which are appropriated by the State Legislature for schools and could thereby be considered State funds.

Source: National Education Association, "Estimates of School Statistics, 1969-70," Research. Report 1969 R-15. (Copyright 1969 by the National Education Association; all rights reserved).

[The Washington Post, Oct. 26, 1971]

SCHOOLS SET TO CLOSE IN DAYTON

By Peter Milius

The Dayton, Ohio, school board has run out of money and will shut down all the city's schools on Friday, Nov. 5.

It will reopen them Nov. 15 if the voters approve a $12.6 million property tax increase in a Nov. 12 referendum.

If the increase is rejected, the schools will stay shut until another referendum on Dec. 14.

If it fails again, there will be no school until January, the start of the school system's next fiscal year.

Dayton—with 53,000 pupils, the nation's 70th largest school system—is the biggest of 33 Ohio school districts that will have to close from three to 30 days ahead of schedule this calendar year if voters turn down tax increases.

The 33 make up 6 per cent of the school districts in the state, and contain 181,000 pupils. Dayton is the only one closing before its referendum.

Familiar Problem

The problem in these 33 districts is the familiar and simple one: School costs are up, and taxpayer willingness to foot the bill is down, in Ohio as elsewhere in the country.

Intertwined with this are some pecularities of Ohio politics, and what seems to be a spreading dissatisfaction everywhere with the traditional use of the local property tax as the financial mainstay of the public schools.

Nationally, local taxes, most of them on real estate, pay about 52 per cent of public school costs. The system is being challenged in the courts by civil rights lawyers on the grounds that it is inequitable because some school districts have more taxable property per child than others, and can thus raise more while taxing less. It is also under challenge from educators, who argue that it doesn't produce enough money.

The California State Supreme Court and a U.S. district judge in Minnesota have declared the system in those states unconstitutional. Meanwhile, many states, for a variety of reasons, are increasing their share of the payment of public school costs.

In the process, they are shifting the burden from property to sales and income taxes—and to some extent, equalizing the spread of tax revenues.

Ohio, where the tradition of local taxation is strong, has resisted this trend. The state last year contributed only 29 per cent of public school costs—the average for all states was 41 per cent—and local taxes bore 66.5 per cent of the burden. The federal government made up the rest.

Ohio is also a state where, judged by personal income, state and local taxes and school spending traditionally have been relatively low.

In general, the state's Republicans are inclined to celebrate the low taxes, the Democrats to deplore the relatively low expenditures. The state now has a Republican legislature and new Democratic governor, John J. Gilligan, and they are in the process of hammering out a new taxing and school spending package that may raise the state share of the school burden.

[The Washington Post, Oct. 26, 1971]

Baltimore Files Suit on Schools

By Lawrence Meyer

The city of Baltimore has filed suit charging that Maryland's system of financing public education unconstitutionally gives children in wealthy jurisdictions a greater opportunity to receive quality education than children in poorer subdivisions.

The suit, filed before a three-judge panel in the U.S. District Court in Baltimore, is being taken seriously by the state attorney general's office, which will defend the State against it. Deputy Attorney General Henry Lord says he considers the suit "significant" and predicts it may wind up in the U.S. Supreme Court.

The central question raised by Baltimore's suit is whether an educational system in which school districts that have less taxable wealth must either spend less on the education of their children than more affluent subdivisions or place a heavier tax burden on the individual taxpayer violates the U.S. Constitution.

Recent decisions by the highest court in California and a federal court in Minnesota saying that such financing is unconstitutional and striking down the financing systems, have caused concern among Maryland legislators.

Gov. Marvin Mandel has said repeatedly that Maryland's situation differs from California's, but some legislators have expressed the belief the California and Minnesota decisions may be made applicable nationally.

Baltimore's suit makes the claim that because of "the differing abilities of the subdivisions to finance their share of public education costs and the inequities in the distribution of state assistance, there exists, and will continue to exist, a wide disparity in the total amounts which the respective subdivisions spend for current public education."

To support its argument, the suit presents an array of statistics showing the wide range in local taxable wealth per pupil, from about $37,100 in Montgomery County to $19,485 in Baltimore City to $13,400 in Somerset County.

The suit contends that to raise the same tax dollar for education, as a result of the disparity in wealth, Baltimore City and Somerset County must tax their citizens at a higher rate than Montgomery County.

Thus the quality of education that students receive, the suit argues, is determined by an accident of birth rather than by a conscious policy so that children in poorer communities receive an education inferior to that of children in wealthier communities. "There is no rational basis for such discrimination," the suit argues.

Maryland has 24 school districts; one in each of 23 counties and the city of Baltimore. In the suit, lawyers for the city cite statistics collected by the state department of education showing that Montgomery County appropriated more money per pupil in 1969–70 (the latest available figures) than any other Maryland subdivision. Montgomery County appropriated $716 per pupil, compared to $556 per pupil for Prince George's, which ranked third, and $425 for Baltimore City, which ranked ninth.

Measured against total taxable wealth, Montgomery County's effort was less than Prince George's but greater than Baltimore City's. Montgomery County spent 2.02 per cent of its taxable wealth on education, compared to 2.48 per cent in Prince George's and 1.98 per cent in Baltimore City. In other words, Prince George's taxed at a higher rate than Montgomery for education, but still spent less per pupil because of Montgomery's greater wealth. Baltimore City taxed at a slightly lower rate than Montgomery, but Montgomery's greater wealth again produced a much higher per pupil expenditure.

Counting money provided in state and federal aid, Montgomery County remains on top with an expenditure of $1,009 per pupil. Prince George's is second with $802 and Baltimore City is fourth with $761.

Montgomery County has announced its intention to intervene in the suit to support the state.

[The Wall Street Journal, Oct. 29, 1971]

Budget Battle

AS TAXPAYER REBELLION PERSISTS, MONEY CRISES GROW IN U.S. SCHOOLS

SPECIAL PROGRAMS ARE CUT; ONE SYSTEM CLOSES DOWN; "THE PUBLIC DOESN'T CARE"

BROKEN WINDOWS IN DETROIT

By Ralph E. Winter

Last year the nation's public school systems were in deep financial trouble. They had to lay off teachers, cut out sports and other extracurricular activities and reduce the number of courses offered. But then summer came, the schools closed and everybody forgot about the crisis.

But it didn't go away.

Schools have been open again for a month or so, and it's the same old story. Systems are laying off teachers, cutting out extracurricular activities and reducing the number of courses. They're cutting budgets drastically, and educators are talking once again of the perils to children. The system in at least one big city—Dayton—will close on Nov. 5 because it is broke. Others fear they may have to close, too.

"We've made some cuts each year since 1968, and we're now living with $6 million or $7 million worth of reductions," says John F. Faust, acting associate superintendent of the Cincinnati schools. "Our board struggled with the decision on whether to close and decided that their mandate is to keep schools operating. But like a lot of other school districts, there's not much left to cut, so we can't keep on going if we don't get more money soon."

ESPECIALLY ACUTE

A recent National Education Association survey showed that 41 of 63 large school districts are making some kind of cutback and 13 are on a "hold the line" budget permitting no additions or improvements; only nine have money to expand. Many smaller rural districts are equally hard pressed, and even relatively prosperous suburban communities are increasingly reluctant to spend tax dollars for schools.

This year's problems are especially acute for a number of reasons. For one thing, this is the second or third year of cutbacks for many districts; the frills are already gone in many cases, and current reductions are cutting into basic programs. Furthermore, many schools are being forced to raise funds for nonacademic purposes, such as court-ordered busing to achieve racial balance.

In view of the worsening financial crisis, it seems ironic that enrollments have leveled off or are declining in most communities. Public elementary and high schools are expected to enroll only 1.1% more students in 1975 than 1970's 45.9-million enrollment, compared with a 26.7% jump during the 1960s. Furthermore, for the first time since the Depression, there's a surplus of teachers. As a result, many teachers are working without raises.

School costs, however, have continued to climb nearly 10% a year—far more rapidly than property values in most communities. Property taxes are the largest single source of school revenue. During the last school year, local taxpayers shelled out 52% of the $42 billion spent on public elementary and high schools. And property owners are balking.

VOTING NO

In Ohio, for example, voters last year approved only 27% of the requests for higher property taxes for school operation, down from 51% approved in 1969 and 68% in 1968. New York State voters turned down 132 school budgets proposed for 1971–72, compared with 82 budgets rejected a year earlier. And in Louisville, school administrators decided against even trying for higher property taxes, after a poll showed that while two-thirds of the voters agreed school financial problems were serious, only one-third said they were willing to pay higher taxes to solve them.

School administrators have adopted a wide range of approaches to dealing with the cash crisis. In Ohio, an increasing number of schools are adopting Dayton's method—run normally until the money is gone, and then close. "We'd rather close than lose gains in education it has taken decades to make," says Wayne Carle, Dayton's superintendent. (Lost time in Dayton will be made up later in the school year, possibly including some Saturday and Sunday sessions next spring.)

Dayton's voters will once again go to the polls on Nov. 12 to decide on the fate of a proposed $10.5 million tax increase; passage of the proposal would allow schools to borrow against future income and reopen Nov. 15. If the proposal fails to win acceptance, the same issue will reappear on a Dec. 14 ballot. And if that, too, is rejected, Dayton schools will remain closed until Jan. 3, at which time 1972 tax money will be available.

To forestall such crises, other cities are eyeing the elimination of various days from their school calendars. Chicago may operate its schools only 177 days this term, instead of the 189 originally planned, adding 12 days to the Christmas vacation. Philadelphia schools will close before the end of May if more money isn't forthcoming. And in Los Angeles, high school students attend only five hours a day instead of the previous six.

Cutting school time isn't the only method of cutting costs. Detroit schools have cut back maintenance to the point that some broken windows are merely boarded up. Columbus, Ohio, among other austerity measures has eliminated school concerts formely performed by the Columbus Symphony (at an annual cost of $10,000). And among numerous other examples, the high school in Carrington, N.D., this year dropped its only foreign language course, German, from the curriculum.

A number of basic reasons underlie the current crisis. Paramount, of course, is the fact that average teacher salaries rose 77% during the last decade—and 80% or more of most school budgets is allocated to payrolls. But non-educational expenses have also climbed; Boston schools, for example, expect to spend $970,000 for fuel oil this year, about $300,000 more than last year.

Schools have further increased their costs over the past few years by assuming additional educational responsibilties, including extra vocational courses, specialized instruction for both slow learners and gifted pupils, and a host of other out-of-the-ordinary programs. "The type of program we were developing was beyond the community's ability to pay," says an administrator for the De Kalb, Ind., schools.

The De Kalb system is typical of numerous other districts. The schools' courses had grown to include a number of "extra" programs, including violin instruction, four years of French, and advanced chemistry classes. In April, however, taxpayers voted down a proposed levy; the violin lessons were ended, advanced courses were combined, and the staff was changed from a one-to-15 ratio faculty-to-student to one-to-20.

"We were expecting additional state support but didn't get it," says the De Kalb school administrator. Consequently, he adds, the system's "education is a little less personal than it was."

The fact that state aid hasn't risen to earlier expectations is complicating school budgeting throughout the country. "The rise in state aid has just about kept up with inflation in school costs," says Glen L. Hanks, secretary to the Kansas City board of education.

Many politicians, to be sure, frequently and enthusiastically discuss the possibility of increasing state aid for public schools. Such enthusiasm, however, is more often than not eventually muted by election realities, and reluctance to raise state taxes keeps assistance lower than originally rosy projections.

Current school-financing methods are being challenged in several courts. Some observers, in fact, believe the property-tax approach to school funding may ultimately be replaced in fact, believe the local-property-tax approach by complete state aid.

Bolstering this argument is the fact that the California Supreme Court a few weeks ago ruled that local property taxes are an unconstitutional approach to school financing; such a system, the court said, denies children in poorer communities "equal protection of the laws because it produces substantial disparities among school districts in the amount of revenue available for education."

The California case, however, is far from settled and may eventually reach the U.S. Supreme Court. But whatever the outcome, such challenges are currently making school financing more rather than less difficult. Legislators in other states are postponing school-financing decisions until the California case and other school-related legal battles are settled.

In the final analysis, the financial crisis has created considerable resentment on the part of many educators toward the taxpaying public. The educational community is not without sympathy for the taxpayers' plight; but many educators feel that their pupils are the real victims of the crisis.

"The quality of education children receive is an intangible thing you can't readily measure," says Charles Grissett, director of budget control for Louisville public schools. "It doesn't show up for 15 or 20 years. Meanwhile, our schools could dry up to skeletons, and taxpayers wouldn't care so long as the kids go through the door every day."

BOARD OF EDUCATION
CITY OF CHICAGO
228 NORTH LASALLE STREET
CHICAGO, ILLINOIS 60601
TELEPHONE 641-4141
JAMES F. REDMOND
GENERAL SUPERINTENDENT OF SCHOOLS

FEDERAL AND STATE RELATIONS
ARTHUR R. LEHNE
ASSISTANT SUPERINTENDENT OF SCHOOLS
TELEPHONE 641-4360

November 15, 1971

Dear Senator Mondale:

It was unfortunate that the press of activities in Washington made it impossible for you to attend the Fall Conference of The Council of the Great City Schools in Minneapolis on Friday, November 12. This was a fine conference, but would have been much better if the school board members and their superintendents had the opportunity to participate in the hearing that had been scheduled.

The leadership you have given to American education as the Chairman of the Select Committee on Equal Educational Opportunity is indeed recognized by all of us who work on legislation in the cities and are aware of the tremendous skills, background, and commitments that you bring to the improvement of education.

Mrs. Louis Malis, Member of the Board of Education of the City of Chicago, and also an officer of the Council of the Great City Schools, had given considerable thought as to how we could be helpful to the work you are doing. In preparation for this meeting, Mrs. Malis had prepared testimony for the record, describing the fiscal problems being faced by the Chicago schools and solutions that we think will contribute to their resolution within the area now under consideration by your Committee. A copy of Mrs. Malis' presentation for the November 12th meeting is attached, should you wish to incorporate it into the proceedings and findings of the Select Committee on Equal Educational Opportunity.

Sincerely yours,

Arthur R. Lehne
Assistant Superintendent

ARL:jp
Enclosure

Senator Walter F. Mondale
Chairman, Select Committee
on Equal Educational Opportunity
Washington, D.C. 20515

FOR RELEASE UPON DELIVERY

STATEMENT BY
MRS. LOUIS A. MALIS, MEMBER
CHICAGO BOARD OF EDUCATION
Before the
SELECT COMMITTEE ON EQUAL
EDUCATIONAL OPPORTUNITY
UNITED STATES SENATE
Friday, November 12, 1971

Mrs. Malis is accompanied by:

Dr. James F. Redmond, General Superintendent of Schools
Dr. Arthur R. Lehne, Assistant Superintendent for Federal and State Relations

Mr. Chairman and Members of the Committee:

On July 1, 1971, the State of Illinois began a new era of government under a new Constitution, voted into existence by the people in the first major change in 100 years. Article X of this new Constitution provides that:

> "A fundamental goal of the People of the State is the educational development of all persons to the limits of their capacities."

The article further provides that:

> "The State has the primary responsibility for financing the system of public education."

Instead of ushering in a new era for education from the date the Constitution was put into effect, the period between July 1 of 1971 and today has been a period when the Board of Education and the staff of the Chicago Schools have been faced with the dilemma of raising the quality of educational services in the face of fiscal shortages so severe that the only recourse available has been to adopt plans to close schools when operating funds run out four weeks from now, and 600,000 children and adults are left without educational services for the balance of the year, and the skills of 35,000 trained and supportive members of an educational team are unused.

What we are seeing in one urban center is inequity of opportunity of the grossest nature and a mockery made of the most basic document that a state has to guide its development and direction. Our new State

Superintendent of Public Instruction, Dr. Michael J. Bakalis, in a statement to the press a few weeks ago, documented that the State's share of public support for Illinois public schools will drop from 38% to 35% in the present school year.

The Chicago Board of Education is undertaking an intensive budget study, utilizing a budgetary document labled "Planning Budget for 1972." The program planning budget approach is being developed in Chicago as an instrument for initiating more effective educational services through a detailed analysis as to how we utilize funding available for educational services. The deeper we probe into this analysis, the more cognizant we become of the inequities that exist in terms of the kinds of resources available to help urban children learn. Our planning budget leads us to a tentative budget which is our second step in moving toward our next year of operation. The Board of Education of Chicago has faced up to the harsh reality that there is a $96 million shortage in the year ahead between what is needed to maintain salary commitments, basic education programs, and to expand or initiate new programs which our research and experience indicates are essential for urban opportunity.

That $96 million difference must be slashed from the tentative operating budget in a way that turns back the clock in some programs as much as 100 years. All this comes at a time when we in Illinois are learning to live with a new Constitution in a new day that promises "the educational development of all persons to the limits of their capacities."

Approximately 30% of the $96 million needed for this next calendar year of school operations deals with negotiated salary increases for staff and longevity raises. These have been eliminated. Another 20% of essential new and expanded programs directly related to improvement of instruction and services to instruction has been drastically curtailed. Many negotiated fringe benefits for staff now in effect have been cut back by almost 50%. Across-the-board reduction in services in all departments is being made of 10%, and programs that are not directly related to the one basic mandate of schools -- education of youth -- are being cut back or eliminated altogether. Adult education is one such program. The Americanization services we have provided in Chicago for newcomers for over 100 years will, without new financial assistance, be dropped next month.

We have long advocated a federal-state partnership that would provide for one-third of operating costs from federal-state-local sources. We continue to urge that this be an immediate goal. The implementation of the California court decisions nation-wide, which coincide with the findings of the recent financial study of Dr. Johns, should be implemented as soon thereafter as possible.

The formula proposed in the $2 million OE-funded National Educational Finance Project, centering on equalizing educational opportunity, is a helpful departure from current funding patterns which place undue burdens on urban centers. Using 1.0 as a funding level for an average student and up to a 2.35 funding level for handicapped children is one that bears continued study. It can become an important tool to be utilized in dissolving the inequities of aid that now exist. Well over half of our children in urban schools are handicapped by one measure or another in terms of potentiality for reaching their educational capacities on the basis of the way we now staff, and service urban educational needs.

The Congress has been unresponsive to date in utilizing a viable avenue for providing immediate help through Public Law 874. Over 10% of Chicago's children come from public housing units where the criteria of poverty, broken homes, and high mobility make them prime targets for immediate federal aid. Yet authorization which has been on the books for several years has constantly been ignored.

Approximately $11 per housing unit for education in lieu of taxes is a far cry as revenue producing sources compared to the education dollar produced by the median property valuation of $50,000 of some of our neighboring North Shore communities. We concur with the findings of several recent fiscal studies that do indeed show that the most money is available for children in those school districts where the children are already farthest ahead.

Because of the inequality of equal educational opportunity that now exists, the Board of Education of the City of Chicago has made a plea to the state's Governor and the Legislature of Illinois to help its largest city through an "Equalizing Educational Opportunity bill" which takes into account the disparity within the State. The bill identifies such factors that require special education aid for: children whose first language is other than English; children whose educational attainment is limited because economic-cultural-density factors are such that graduation from high school is unlikely or significantly restricted; children in an attendance area where housing, health, welfare, nutrition or income are substandard; or where the mobility is so high that the educational thread is continuously broken.

These conditions in Chicago, which we have brought before the attention of our Legislature and which we bring before you today, lie at the heart of our problem. They are factors which must be a part of any formula devised to carry out the mandates of our individual state constitutions and federal and local commitments.

Much evidence has already been submitted to this committee about current inequities for funding education. Perhaps today we should place less emphasis on funding disparities than on educational disparities. In the data compiled by the Illinois Superintendent of Public Instruction for the school year 1968-69, the Chicago Public Schools' operational expenses (tuition charge) was identified as $769 per pupil, whereas the adjoining suburb of Evanston (a dual district) had an operating expense of $1,596 per pupil at the secondary level and a $1,102 per pupil expense at the elementary level.

In the State of New York for the same period, the state commission report, just released, shows that for the 1968-69 school year, the New York City per pupil expenditure was $1,330 (including federal aid) while the suburban community of Great Neck, Long Island expended $1,943 per pupil, and Mamaroneck expended $1,539. Resource disparities therefore exist not only between urban-suburban school-communities but between large cities facing the same kinds of problems as well. One of the factors contributing to this urban-urban disparity centers around levels of state support, which is at a 45% level in New York, compared to a 38% level in Illinois for that same period.

If we go the next step in comparative data, we can note even disparities operating among schools within our own city. For example, in Chicago we have a range in expenditures on the basis of per pupil-staffing costs from $404 to $723 in regular elementary schools, including $1,342 pupil staffing costs in an experimental school. The range in costs among the regular elementary schools of approximately $300 per pupil staffing is caused by differences in teacher salaries based on experience and longevity rather than special educational services or delivery of educational excellence.

The direction which we believe is necessary to go in America's cities must center on educational attainment. As we reexamine and establish our primary goals, we must fund our schools in patterns which have the greatest promise of effectively enabling us to achieve those goals. Would that we could develop our 1972 budget in this manner.

We would like to cite what we think are the significant factors in achieving equality of educational opportunity. If we are indeed to achieve the education goal of the Constitution of the State of Illinois, namely, "the educational development of all persons to the limits of their capacities," we must strengthen educational leadership within the school with programs of inservice development that makes each principal the educational leader and an integral part of the community in which he serves. We have more than scratched the surface through our program of decentralization and placement of educational decision-making in the hands of school-communities.

The Chicago Board of Education has adopted as its top priority: "Improving individual student achievement in the basic subject areas and in developing in-depth understanding and knowledge in areas of special interest."

We have established that working with parents in the role of the home in developing reading readiness to be a basic component for achieving this goal. We have also reaffirmed our commitment to priority goals for achieving equality of education the fundamental concepts of education that can be categorized under self-image, citizenship, vocational guidance, community involvement, and adult education.

The large cities of America lost their lighthouse status in the early '20s and have not regained this status except in isolated school-communities here and there. We can regain this role by strengthening the educational leadership through decentralization of decision-making and staff inservice, if we have resources to retrain teaching staffs as they develop greater understanding and humanistic approaches in the art of teaching through utilization of techniques and approaches particularly unique to the urban child. In this area we have made a start in Chicago through an intensive reading development program, which includes additional reading specialists, staff help, the utilization of teaching systems (many based on phonetic approaches) and computer-assisted instruction, and individualized instruction approaches to competence.

We have gone beyond the point where early childhood education is an experiment which yields promising results. Our demonstration schools are now real, on-going programs which provide solid achievement to a fraction of children who need this help. They cannot be expanded because there is no fiscal means to do it even though we have shown in our schomes and child-parent centers that by early intervention, parental involvement, special staff development, our inner city children learn at a rate which exceeds national averages. This progress we have made inspite of our inability to adequately fund research, planning, and development services.

If there is a good education program operating anywhere in America, an example of that program can be found in Chicago -- be it a magnet school, a mini-magnet school, an industrial skill center, a school-without-walls, a career education center, outposts, a learning center, or reading and diagnostic center. Yet the inequality of educational opportunity exists to the extent that these most promising demonstration centers that provide for equalizing educational opportunity are but candles here and there within our cities and states rather than the basic fabric of what can be done for children. It is to resolving this inequity that we believe this committee can best address itself.

We do not lament that at a time that our enrollments in elementary schools dropped by 2,000 pupils, the number of non-English speaking children increased by almost 7,000 children. These children give us a new opportunity to help develop the great untapped human resource that exist. But we can only tap that potential and that strength by unequal application of our talents and treasures for equalizing educational opportunity.

Chicago is not a city with a staff or a Board that laments the facts that urban centers are becoming focal points or hubs of the most complex of educational problems. For we believe that we can solve these problems through the avenues which we have cited and new approaches we have the capacity to develop through demonstration research. We must recognize that inequities can only be eliminated by prompt and vigorous reordering of fiscal and social priorities within our states and federal government which will enable us to light more and more candles within our school-communities to help our cities become again the most vital moving force in the greatest nation in the world.

THE SCHOOL DISTRICT OF PHILADELPHIA
BOARD OF EDUCATION
PARKWAY AT TWENTY-FIRST STREET
PHILADELPHIA, PENNSYLVANIA 19103

MARK R. SHEDD
SUPERINTENDENT OF SCHOOLS

THOMAS C. ROSICA
EXECUTIVE DIRECTOR
FEDERAL PROGRAMS
448-3161 or 3442

December 15, 1971

Mr. Donald Harris
Select Senate Committee on
Equal Educational Opportunity
Annex 309 Senate Office Building
Washington, D. C.

Dear Mr. Harris:

Enclosed is an addendum to Dr. Mark R. Shedd's statement to the Select Senate Committee on Equal Educational Opportunity. He has asked that I transmit it to you.

Sincerely,

Thomas C. Rosica

Thomas C. Rosica

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ADDENDUM TO STATEMENT BY DR. MARK R. SHEDD
TO THE SELECT SENATE COMMITTEE ON EQUAL EDUCATIONAL OPPORTUNITY

School systems can only function in an effective manner in a "Federalized" system if the proper controls and supports are built into the program at its inception. There must in essence, be established national standards which will act as a guide for Congress in the appropriation process and for school systems in the implementation of the program.

In order to have a system that is financed and operated on a federal level, the following areas will have to be explored so that the system will be functional, responsive and relevant to the needs of the cities.

1. Formula for Federal Payment - The budget process should have as its basis a PPBS system. A minimum of five years should be reflected in this planning, and the budget should be developed on a needs basis.

   In addition, Congress must appropriate the funds no later than March so that the school districts can be assured of their funding level.
2. Staffing Patterns - Every school system has similar features, but each also is unique. This area will have to be carefully explored so that the patterns best suited to the community will evolve. Minimums and maximums must be established on a federal level with trade-offs permissible in this structure.

3. Wage Guidelines - These can be developed in two ways:
   - a. Establish a flat percentage increase each year leading to a maximum salary; or
   - b. Establish performance criteria for each position and grant salary increases on the basis of success in meeting objectives.

   In addition, wage controls must be instituted to ensure a rational and comparable relationship between wages in the government and private sectors.
4. Building Maintenance and Construction - A "Federalized" system will necessitate establishment of a systems approach to building maintenance and construction. Economies can be achieved by using system components in the design and construction of new facilities. The systems approach also will provide for maintenance to insure safe and sanitary buildings. In addition, a realistic timetable must be developed for replacement of obsolete buildings and construction of necessary additions to present buildings.
5. Research and Evaluation - Although federal resources will be made available to the system, a minimum of ten percent should be allocated for this purpose. This effort should include a Management Information System and a Student Data Bank as part of the total effort. Also, these must be a massive input into instructional systems development, with a large investment in technology which eventually will reduce the unit cost of instruction.

6. Staff Selection and Appointment - This must be vested in the local school system. Criteria for selection of personnel should be developed cooperatively on the federal and local level.

7. Decision Making - A structure that insures inputs from parents, students, teachers, principals and administrators must be an integral part of the system. This should be linked with the budgetary process so that a true needs budget can be developed.

   The question of who has ultimate control must also be clearly defined.

8. Curriculum - A national curriculum that is broad in scope should be developed by the federal government. Tailoring this material to local needs will be the responsibility of the local school system.

9. Supportive Services - Health, psychologial, social, legal, finance, purchasing and data processing services can be purchased and do not have to be a part of the school districts' administrative burden. Federal grants to institutions in the community can specifically state that they are mandated to provide personnel and all other service functions to the school district.

10. Twelve-Month School Year - A twelve-month school year should be a requirement for all districts' participation.

The "Federalized" system should establish educational priorities in the following areas: early childhood education; reading; basic skills; and career education. In addition to priorities, there must be included a solid design for transition to the new "Federalized" system. Such a design will assure a smooth changeover with a minimum of problems.

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